

# INTERNATIONAL Herald Tribune

Published with The New York Times and The Washington Post

No. 30,669

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PARIS, FRIDAY, SEPTEMBER 25, 1981

Established 1887

## Poland to Use Armed Forces In Crackdown on 'Anarchy'

By John Danton

**WARSAW** — Premier Wojciech Jaruzelski told parliament Thursday that he had instructed the army and police to crack down on lawlessness and anti-Soviet activity.

Gen. Jaruzelski also asserted that the fate of the nation depended to a considerable extent on the policies to be adopted by the Solidarity union at the second phase of its national congress beginning Saturday in Gdansk.

He called on the union to isolate itself from the enemies of Socialism, to join the government in implementing economic reform and to recognize the supreme rationale of Poland's alliance with the Soviet Union.

The general's speech, mingling threats and appeals, seemed to cap a week-long government campaign to pressure the union to adopt a more moderate course and back away from political-sounding resolutions that characterized the opening of the congress earlier this month.

### Soviet Message

The campaign followed a blistering message from the Soviet Union that all but ordered the government and party to take radical steps to end what Moscow saw as a politically inspired campaign of rabid anti-Sovietism.

The message provoked a debate at the highest level of the Polish Communist Party, inside the Politburo, over whether or not to declare a state of emergency, which would allow the imposition of martial law. Moderates, including the party leader, Stanislaw Kania, prevailed, and the leadership decided instead to issue stern warnings and strike an uncompromising stance in dealing with the union.

In his speech to the Sejm, which opened a two-day parliamentary session, Gen. Jaruzelski was soundly applauded when he said he had instructed the minister of internal affairs, who heads the security apparatus, to take steps to end "anarchy" and anti-Sovietism. The ministry will be supported by specially detailed army forces, the general said.



Gen. Wojciech Jaruzelski

He continued: "An end must be put to the disregard for legal norms, to the deepening anarchy, to the hooligan unbridledness, to anti-Soviet and anti-state excesses."

### Worker Self-Management

The parliamentary session will consider a sensitive issue, a new law on worker self-management in factories and other enterprises that has been a major bone of contention between Solidarity and the government.

The leadership of Solidarity offered a compromise Tuesday that would permit the government to appoint directors in certain enterprises and the union to appoint them in others. Each side would have the right to appeal the other's appointment to binding arbitration by a court.

The compromise, however, drew some criticism Thursday from regional Solidarity leaders, and it was not at all certain that it would be approved at the congress. Some Solidarity chapters have also been passing resolutions condemning what they call pressure tactics by both the government and the Soviet Union.

Gen. Jaruzelski's speech also painted a grim economic picture. He said that industrial production had fallen 13 percent in the past eight months compared with the previous year, that export capacity had diminished and that rationing would have to be extended. A particular problem, he said, was a continuing decline in the supply of meat and black-market sales that affect 20 percent of the meat that should have gone to state purchasing centers.

[In New York, Solidarity opened its first overseas office Thursday. Reuters reported. The movement said the specific aim of the bureau would be to establish a close relationship with U.S. unions. Its 35-year-old director is Zygmunt Przelazewski, a journalist.]

### Soviet Paper's Accusation

**MOSCOW (UPI)** — The newspaper of the Soviet Union's state-controlled labor unions charged Thursday that Solidarity had become "a Trojan horse of imperialism" in the Socialist world.

The newspaper, *Trud*, also asserted that Solidarity criticism of the Polish Communist Party was unconstitutional. It was the second straight day in which the Soviet press has suggested that Solidarity's actions are illegal.

"Having brought about a split in the Polish trade union movement and seeking to place it onto the road of betrayal of the ideals of Socialism and turn it into a Trojan horse of imperialism, the adventurists and provocateurs from Solidarity conceived an intention to spread that beyond the boundaries of Poland," *Trud* said.

The article was mainly devoted to depicting the results of the first part of Solidarity's national congress in Gdansk earlier this month. The Russians have focused on one particular resolution of the congress, calling for the establishment of independent unions in other Soviet-bloc countries, as the object of an increasingly intensive and vitriolic propaganda campaign.



Secretary of State Alexander M. Haig Jr., left, speaking with the Soviet foreign minister, Andrei A. Gromyko, during their discussions at the U.S. Mission to the United Nations in New York.

## Reagan Settles on \$16-Billion Cut In '82 Budget, New Tax Measures

The Associated Press

**WASHINGTON** — President Reagan decided Thursday on a mix of \$16 billion in budget cuts and tax measures intended to raise \$3 billion next year as his prescription for keeping on course toward a balanced budget by 1984.

Amid unusual secrecy, the president worked on his new budget formula just hours before spelling it out in a nationwide broadcast. He pulled back the curtain briefly to let representatives of the nation's governors have a look.

They reported that the president planned a 12-percent across-the-board reduction of most federal spending plans for fiscal 1982, which begins next Thursday.

Gov. Richard Snelling of Vermont, chairman of the National Governors' Association, said the president would propose increasing tax revenue by \$21 billion over the next three years "by closing loopholes."

He offered little detail but said one change would involve revising the system used by defense contractors to figure their profits for projects lasting several years. He said that change is expected to raise \$3 billion in fiscal 1982.

Gov. Snelling said \$7 billion of the \$16 billion in cuts would come from grants to the states, both those in which specific uses are ordered by the federal government and so-called block grants under which the states have greater latitude in spending plans.

Gov. Snelling, a Republican, called the amount a "very, very dramatic further reduction" and said he would work against the budget cuts.

Gov. James Thompson of Illinois, another Republican, confirmed earlier reports that the Social Security cost-of-living increase due to go into effect next July, at a cost of \$2.9 billion, would be "untouchable."

But he said cost-of-living increases for food stamp recipients and some welfare programs would be subject to the 12-percent across-the-board reduction along with other programs.

However, cost-of-living boosts in Aid to Families with Dependent Children and Medicaid would not be affected by the 12-percent reduction, he said.

The governors said the politically popular revenue sharing program, under which local governments receive funds from the federal government without stipulation on how they can be spent, would be subject to the 12-percent cut. Some had feared it would be abolished.

In his fifth speech on national television since taking office, Mr. Reagan was expected to cling to his targets of keeping the 1982 deficit at \$42.5 billion and balancing the budget in 1984.

## Armenians Kill Turk And Hold 25 in Paris

By Paul Treuthardt

**PARIS** — A four-man Armenian "suicide squad" shot its way into the Turkish Consulate on Thursday, killing a security guard and threatening to kill 25 hostages unless all Armenian "political prisoners" in Turkey were immediately flown to France.

About eight hours after they seized the central Paris offices, they handed over the body of the dead Turkish guard, a police officer at the scene said.

Earlier, one of the Armenians, wounded in the shoulder by police fire, gave himself up and demanded political asylum, and the commandos released Kaya Inal, a vice consul, who was seriously wounded in the chest.

They also released a 3-year-old child who had been shown at the window by one of the Armenians. Messages from the commandos, also released in Beirut by the Armenian Secret Army for the Liberation of Armenia, gave a deadline of 11:30 p.m. more than 12 hours after the attack started, for the freeing of the prisoners. But the deadline passed with negotiations apparently still in progress.

The commandos threatened to blow up the offices and kill all the hostages if the demands were not met. Police sources and a Turkish Embassy spokesman had said earlier there were some 40 hostages, as did a hostage shouting from a window. But a police official announced Thursday evening, after repeated contacts with the terrorists, that 25 persons were being held.

A spokesman for the Turkish Embassy in Paris quoted Ambassador Adnan Bulak as saying: "We will not negotiate with terrorists. That is Turkish government policy."

### Others Evacuated

The spokesman said there were no Armenian political prisoners in Turkey, although there were "extreme right and extreme leftist political prisoners."

After the assault, the police evacuated all the other occupants of the building, about 70 persons. Some of them climbed down from the second and third floors on ladders put up by the police.

The police also evacuated buildings facing the consulate on Boulevard Haussmann in the 8th Arrondissement not far from the Avenue des Champs-Elysees.

First reports said there were three guerrillas, but informed sources later said there were four. The police said that when they first approached to ask if negotiations were possible, a hand grenade was waved at them behind a window.

They also said initial reports that two French policemen were held were incorrect. They said two (Continued on Page 2, Col. 5)



A guerrilla of the Armenian Secret Army held a pistol on a weeping hostage in the window of the Turkish Consulate in Paris on Thursday. He asked the police to let journalists come to the sidewalk below to receive a message from the commandos.

## U.S. Document Hints MX May Be Canceled

By George C. Wilson

**WASHINGTON** — Pentagon leaders told the Air Force last week to assume that President Reagan would scrap the MX land missile, build a fleet of B-1 bombers and put a fleet of AWACS warning aircraft around the continental United States.

The assumption about the MX cancellation was for budget-planning purposes. Mr. Reagan has yet to make his decision on the future of the controversial missile. But the Pentagon planning underscores how far defense Secretary Caspar W. Weinberger has gone to find an alternative to the missile.

Deputy Defense Secretary Frank C. Carlucci in one set of secret instructions told Air Force planners to assume that the MX would be replaced by a version of the Navy Trident-2 submarine missile, saving a total of \$33.2 billion in the five-year period of fiscal 1983 through 1987.

At the same time, Mr. Carlucci continued, research should go forward on other ways to base intercontinental ballistic missiles such as the MX, including burying them deeper in the earth to withstand nuclear blast and stationing them aloft in giant aircraft.

### Paper Exercise

Some Air Force leaders dismissed Mr. Carlucci's instructions as a paper exercise, predicting Wednesday that Mr. Reagan would end up building 100 MX missiles to be rotated among 1,000 cement garages on government land in Nevada. But they acknowledged that neither Mr. Weinberger nor Mr. Reagan has informed them that this option has been adopted.

Other government officials said Mr. Weinberger is still fighting for the "common missile" option: an Air Force-Navy version of the Tri-

dent-2 already under development. Mr. Weinberger told the House Budget Committee on Wednesday that the MX decision has "virtually" been made and will be announced by the end of the month.

Mr. Weinberger has warned that trying to deploy the MX as the Air Force recommended — 2,000 missiles spread among 4,600 shelters in the valleys of Nevada and Utah — would bring an avalanche of lawsuits that would delay the missile's deployment. And this would come at a time when Soviet warheads have become so accurate that they could destroy today's arsenal of U.S. land missiles, which are stationary underground.

Gov. Robert List of Nevada, in a letter to Mr. Reagan released Wednesday, said he wished to reiterate his "emphatic opposition to any MX deployment in Nevada." Earlier, the governor had indicated his state would allow the missile deployed there if the U.S. government said it was absolutely vital to national security.

As a further hedge against the destruction of U.S. land missiles, the Pentagon has earmarked \$1 billion for the Air Force's anti-ballistic-missile research in fiscal 1983 and 1984.

Mr. Carlucci's instructions also told the Air Force to assume for budget-planning purposes that Mr. Reagan would start building a fleet of B-1 bombers in 1983 with \$300 million, aiming toward having the first ones ready to fly by 1986.

Clearer than Mr. Reagan's future course on the MX and B-1 is where he wants to go on air defense. Documents circulating in the budget offices of the Pentagon confirm that the Reagan administration wants to erect a tighter warning net against incoming bombers and missiles, even though experts have said in the past that this is a losing proposition.

The Pentagon's new strategic (Continued on Page 2, Col. 3)

## U.S., Russia Set Fresh Talks on Europe Missiles

By Don Oberdorfer

**WASHINGTON Post Service**  
**NEW YORK** — The United States and the Soviet Union announced Thursday that talks on limitation of medium-range nuclear forces in Europe would resume in Geneva on Nov. 30.

The announcement, issued simultaneously in New York and Moscow after a meeting between Secretary of State Alexander M. Haig Jr. and Soviet Foreign Minister Andrei A. Gromyko, said that "both sides believe in the importance of these negotiations for enhancing stability and international security and pledged to spare no effort to reach an appropriate agreement."

Nonetheless, U.S. officials made clear they do not expect an early breakthrough to agreement in such talks. Among the complications is the issue of intercontinental strategic arms, on which no early negotiations are in sight. (On Wednesday, an assistant U.S. defense secretary, Richard N. Perle, said the administration would approach the Russians within the next six months about starting new strategic arms limitation talks.)

### Unresolved Issue

Thursday's U.S.-Soviet announcement did not say whether the two sides have even agreed on the medium-range weapons to be covered — an unresolved issue in preliminary discussions late last year.

The U.S. negotiating team, the announcement said, is to be headed by Paul Nitze, a former deputy defense secretary, a member of the SALT-1 negotiating team and a strong critic of the SALT-2 arms limitation treaty that was negotiated but not ratified.

Heading the Soviet team will be Ambassador U.A. Kvitsinsky, the announcement said.

The start of the new round of theater nuclear force discussions comes almost exactly two years after NATO ministers voted to deploy medium-range missiles while at the same time seeking negotiations with Moscow on controlling their numbers. The Soviet Union, Mr. Haig said, now has about 270 of these medium-range missiles — SS-20s — deployed in Eastern Europe. Under NATO's plan, the alliance will put 572 of the theater nuclear force missiles — 108 Pershing-2 rockets and 484 Cruise missiles — in Western Europe by 1984.

Thursday's announcement of the Geneva discussions was the only tangible agreement expected by U.S. officials from the four hours of talks between Mr. Haig and Mr. Gromyko on Wednesday afternoon. Another meeting is scheduled Monday.

### Sketchy Description

U.S. officials gave only the sketchiest description of the Haig-Gromyko discussions. Dean Fischer, the State Department spokesman, said they had discussed "the broad principles surrounding U.S.-Soviet relations" and "touched on a number of international issues."

Mr. Haig and Mr. Gromyko met with only interpreters present for two hours and 50 minutes in the

office of Jeanne J. Kirkpatrick, U.S. representative to the United Nations, at the U.S. Mission. Later the two were joined by their advisers for one hour and 15 minutes more.

Mr. Fischer said the meeting was "frank and businesslike." Mr. Gromyko did not characterize it. Mr. Haig declined to speak to reporters as he left the mission.

All indications from U.S. diplomats were that Mr. Haig's presentation of the basic concerns of the U.S. administration followed the lines of President Reagan's letter to Soviet President Leonid I. Brezhnev, which was dispatched from Washington on Monday and presented through the U.S. Embassy in Moscow on Tuesday. According to the rendition of the letter made public in the United States, Mr. Reagan attached "particular concern" to two aspects of recent Soviet conduct.

● An "unremitting and comprehensive military buildup over the past 15 years" that exceeds Soviet defensive needs and "carries disturbing implications of a search on the part of the Soviet Union for military superiority."

● The "persistent unilateral advantage in various parts of the world — through direct and indirect use of force in regional conflicts," especially involving Cuban forces and arms.

Mr. Gromyko, in a UN General Assembly speech Tuesday, charged that the United States was staking a claim to "military superiority" and that Washington rather than (Continued on Page 2, Col. 6)

## INSIDE

### Stocks Reeling

Share prices continued to fall in London, where one analyst said the exchange's "utter confusion" was fed by pessimism about the economic policies of both the British and the American administrations. Page 13. Prices on Asian bourses also fell, and concern about U.S. economic policies was seen as a factor. Page 14.

### Latin America

With an abundance of natural resources, Latin America is attracting ever-increasing amounts of development funds. But heavy debt and soaring inflation — along with the element of political instability — tend to make investors cautious. A special supplement on banking and finance in Latin America appears on Pages 7S-11S.

## TOMORROW

### Hail Bartok

Centennial celebrations for the composer Bela Bartok reach a high note in the next few weeks in his native Hungary. An appraisal of the composer, ethnomusicologist and pedagogue appears tomorrow in Weekend.

## Saudis Helping Meet U.S. Treasury Payroll

By Morton Mintz

**WASHINGTON Post Service**  
**WASHINGTON** — A senior Treasury Department official has acknowledged that for seven years, Saudi Arabia has reimbursed the U.S. government for the salaries of a number of department employees.

This led a House subcommittee chairman to question whether the Treasury employees may have divided loyalties and constitute "a potential fifth column" in the department.

Rep. Benjamin S. Rosenthal, Democrat of New York, raised the questions in an exchange Wednesday with Marc E. Leland, assistant Treasury secretary for international affairs, at the closing session of a hearing on the adequacy of the government's monitoring of the multibillion-dollar investments being made in the United States by members of the Organization of Petroleum Exporting Countries.

Mr. Leland said Treasury employees whose salaries, starting as early as June, 1974, have been reimbursed by the Saudi Arabians and who provide procurement, technical and other help in the United States and in Saudi Arabia. In the three fiscal years starting in 1979, he said, these employees received \$3,581,500 in Saudi-reimbursed salaries.

Rep. Rosenthal said he believes the reimbursements violate a 1978 law that, the General Accounting Office has said, requires the employees to be paid out of appropriated funds. A Treasury Depart-

### Conflict Seen

Even if Congress had not enacted the 1978 law, Mr. Tribe said in a telephone interview. "I would have grave doubt that the Constitution would permit the practice." Rejecting Treasury's defense, he said it is "clear that Congress has not given its consent. The Constitution needs consent. Plainly, we don't have it here."

At the hearing of his Commerce, Consumer and Monetary Affairs Subcommittee of the House Government Operations Committee, Rep. Rosenthal asked if the arrangement was an "apparent, al-

(Continued on Page 2, Col. 1)

## U.S. Officials Puzzled by Sadat's Revelation of Aid to Afghan Rebels

Washington Post Service

**WASHINGTON** — Many senior government officials here are puzzled as to why Egyptian President Anwar Sadat said in a television interview that the United States had been secretly buying old Soviet-made arms from him and slipping them to rebels fighting Soviet forces in Afghanistan.

There has never been official confirmation of the operation, and the fact that it now comes from a major pro-Western head of government has left much of official Washington unhappy.

The U.S. effort, led by the Central Intelligence Agency, to help supply the Afghan resistance has always been limited to secret, although several news stories, based on accounts supplied by unidentified sources, have reported on the operation.

Mr. Sadat made his comments during an interview with NBC News in Cairo. Soon after the Russians intervened in Afghanistan in December, 1979, "the United States sent me airplanes and told me, 'Please

open your stores for us so that we can give the Afghans the armaments they need to fight, and I gave the armaments,'" Mr. Sadat said.

Mr. Sadat said the arms were of Soviet manufacture supplied to Egypt prior to 1972 — before Mr. Sadat threw the Russians out of Egypt.

On Feb. 15, 1980, The Washington Post reported that the United States was covertly shipping weapons, mostly Soviet-made small arms, to the rebels across the Pakistani border. The Soviet presence helped to disguise the weapons' origin, and the arms were available in countries such as Egypt.

In the interview, Mr. Sadat said he continues to supply arms and will do so "until the Afghans get ... the Soviets out of their country."

In Washington on Wednesday, sources who declined to be identified said there is only speculation as to why Mr. Sadat gave official recognition to the operation.

Some thought it simply a result of getting too expansive in an interview. Others saw it as perhaps Mr. Sadat's way of demonstrating that Egypt, too, has a strategic relationship with the United States, just as the Reagan administration recently announced the United States has with Israel.

In another view, Mr. Sadat, highly praised throughout much of the West as a leading world statesman and man of courage, faces domestic political problems and may simply have felt frustrated and wanted to show the extent of his involvement in matters requiring decisiveness.

Some sources said they assumed the Pakistanis would be the most vexed at Mr. Sadat's remarks. Pakistan has borne the brunt of many problems in the wake of the Soviet intervention, including an influx of millions of Afghan refugees and constant pressure from Moscow not to allow its territory to serve as a conduit for rebel arms.

Officials at the State Department and CIA had no comment on Mr. Sadat's remarks.

### Tass Comments

**MOSCOW (Reuters)** — President Sadat's disclosures about U.S. weapons supplies to Afghan rebels show that American demands for a withdrawal of Soviet troops from Afghanistan are hypocritical, Tass said Thursday.

Tass said Mr. Sadat had badly let down his friends in Washington and made clear to all Americans why the Soviet military presence was needed in Afghanistan.

The agency said Mr. Sadat had effectively confirmed that the United States, along with China, was waging a battle to overthrow the Kabul government, and this, it said, fully explained why Moscow had "come to the assistance of the Democratic Republic of Afghanistan."



# Japan Decides to Let Arafat Make First Visit, Probably Next Month

By Henry Scott Stokes  
New York Times Service

TOKYO — In an apparent policy change, the Japanese government has agreed to allow Yasser Arafat, the Palestinian Liberation Organization leader, to make his first visit here, probably next month. The decision reflects Japan's overwhelming dependence on the Middle East as a source of oil.

Tamio Amano, a Foreign Ministry spokesman, said Thursday that if Mr. Arafat comes to Japan he is expected to meet with Prime Minister Zenko Suzuki and Foreign Minister Sunao Sonoda.

"It seems to be quite likely he's coming here sometime in October," the spokesman said. But Mr. Amano said that Mr. Arafat would come to Japan on the invitation of a group of parliamentarians headed by former Foreign Minister Toshio Kimura, not as a guest of the Japanese government.

The possibility of an Arafat visit has been a subject

of debate in the Japanese government since late last year, when Mr. Kimura visited Mr. Arafat in Beirut and invited him to Japan. Mr. Kimura heads a group of more than 100 parliamentarians in the League for Japanese-Palestinian Friendship, an informal group of mainly conservative members of the ruling Liberal Democratic Party.

Mr. Arafat at first said he would not come to Japan unless the government invited him. Mr. Kimura said in an interview early this year. But he softened his position, saying he would come provided that he could meet Mr. Suzuki.

## 'Not a State or Country'

Japan's government, which allowed the PLO to set up an office here in 1977, opened the way for the Arafat visit. The PLO office in Tokyo, headed by Fathi Abdul Hamid, does not have diplomatic status. At a news conference with foreign reporters, Mr.

Amano said Japan "probably... shall say no" if Mr. Arafat requests an upgrading of the PLO office to full diplomatic status.

"The PLO is not a state or country or government," said Mr. Amano.

The invitation to Mr. Arafat comes at a time when Japan is moving toward closer ties with Arab nations, especially Egypt. Egyptian President Anwar Sadat is to visit Tokyo in November for the first time.

There have been press reports that Japan will offer aid worth nearly \$150 million to Egypt during the visit. Tokyo has given nearly \$900 million in credits to Egypt in recent years.

Japan's interest in the Middle East reflects the role that Arab oil plays in its dynamic industrial economy. With Saudi Arabia, Kuwait and the United Arab Emirates already Japan's main oil sources, Tokyo appears to have concluded that better relations with the PLO will lay a foundation for understanding with the more radical Arab regimes.

"Japan today depends on the Middle East for about 70 percent of its total energy consumption," said Masao Sakisaka, a government economist. And, he added, the foundation of the "present affluent society" is extremely weak.

Naohiro Amaya, a former top trade official, predicted recently that U.S. oil supplies will dwindle in 10 years and that Soviet oil flows will run down in 14 years, but that the Middle East can maintain production for half a century.

And Japan's energy needs are expected to soar, boosting oil imports. Experts say that energy needs are expected to surge from the equivalent of 376 million tons in oil in 1977 to about 950 million tons by the year 2000.

"It is imperative for this country to establish closer ties with [Arab] nations through economic and technological cooperation and cultural exchanges, to say nothing of diplomatic efforts," said Mr. Sakisaka.

## Iran Accuses Saudis Of Beating Pilgrims

The Associated Press

BEIRUT — Iran accused Saudi soldiers of beating 20 Iranian pilgrims at the holy city of Medina early Thursday and complained that Iranians bearing portraits of Ayatollah Ruhollah Khomeini were being turned back by the Saudi Arabian.

Saudi officials, who have warned pilgrims not to bring in political propaganda, could not be reached for comment. An official at the Iranian Embassy in Jidda said a Tehran Radio report on the beatings overstated the incident.

Tehran Radio claimed that 20 Iranians were injured and that 12 required hospital treatment.

### Shiite Unrest

The Saudi royalty, facing unrest among the minority Shiite sect in the Sunni-dominated kingdom, has been nervous about Ayatollah Khomeini's call for exporting Iran's Shiite brand of Islamic revolution.

The Iranian minister of Islamic guidance, Abolmoghaj Moaddikah, said in a telephone interview from Iran that the dispute started over Shiite-Sunni differences in Islamic rituals at the holy shrine.

He said two Iranians, whom he described as cripples because of injuries received during the revolution against the shah, were arrested for kissing the tomb of Mohammed. The practice is a Shiite ritual but alien to the Saudi Arabians and Sunni Muslims.

Other Iranians protested the arrests, chanting "God is great!" and the baton-wielding Saudi soldiers moved into the mosque, according to Mr. Moaddikah's account. "The Saudis were nervous because they

are not used to this sort of thing, the way we here in Iran are," he said.

He complained that the Saudi Arabians had turned back about 80 Iranians headed for Medina as well as an Iranian television crew. He did not say what the intent of the TV crew was but said those pilgrims barred entry were carrying pro-Khomeini materials.

### Khomeini's Picture

"We feel there is a fear of the Iranian Islamic revolution," Mr. Moaddikah said. "All pilgrims who go from Iran wish to take the imam's [Ayatollah Khomeini's] picture and messages to give as gifts."

The Tehran newspaper Kayhan accused the Saudi Arabians of singling out Iranians among the millions of Muslims making the pilgrimage.

A source who did not want to be identified, and who recently returned from Medina, said confrontations between Saudi security men and rowdy Iranian foreign pilgrims at the holy sites were a "daily occurrence."

Diplomatic sources have reported that security precautions this year are tight and unprecedented.

Mr. Moaddikah, 1979, about 700 armed Islamic zealots held the Grand Mosque at Mecca, Islam's holiest shrine, for two weeks and issued statements denouncing the Saudi royalty.

Saudi forces stormed the multi-chambered mosque, killing 117 of the zealots; 127 security men and 27 pilgrims also died, and more than 500 other people were reported wounded. The surviving conspirators were beheaded.

## Riyadh Helps Meet Payroll At U.S. Treasury, Aide Says

(Continued from Page 1)

most shocking conflict of interest?" "No," Mr. Leland replied.

"To whom do these people owe their loyalty?" the legislator asked. Mr. Leland said they worked for the United States-Saudi Arabia Joint Commission on Economic Cooperation, set up seven years ago by then-Secretary of State Henry A. Kissinger and Crown Prince Fahd to aid the Saudi Arabians in investing their huge oil revenues.

"They are U.S. assets," he said. "They owe their loyalty to the Joint Commission." "And their salary is being paid reimbursably by a foreign government," Rep. Rosenthal said. "To whom do these people owe their loyalty?"

"I don't know," Mr. Leland said. "Think about it," the congressman said. "You're a lawyer. 'I don't know' is the issue arises," the Treasury official answered. "They are U.S. citizens, and therefore owe their loyalty to the United States."

Pressing harder, Rep. Rosenthal said, "In your building you have American nationals who are being paid by a foreign government."

"No," said Mr. Leland. "They are being paid by the U.S. government... the United States is being reimbursed."

### Exchange at Hearing

The following exchange, here slightly abbreviated, followed: Rep. Rosenthal: "Whose interests are they working on behalf of?"

Mr. Leland: "On behalf of the U.S. government."

Rep. Rosenthal: "Then why don't we pay them directly?" Mr. Leland: "Well, because the Saudi Arabians have offered what is a reimbursable detail, and the benefit is to us."

Rep. Rosenthal: "We could get that deal from any government in the world, to put people in the Department of the Treasury or the Department of Defense..."

Mr. Leland: "Not that would bring us a billion dollars worth of business."

Rep. Rosenthal: "I think the Soviets would go for that."

A key area of dispute is Treasury's practice of lumping together all Middle Eastern OPEC members' investments in the United States while listing the investments of other countries separately.

Treasury policy is never to identify individual investors, Mr. Leland said, noting that in the OPEC countries the government is often the exclusive investor.

Rep. Rosenthal suggested that with the Saudi-paid employees, "You have a potential fifth column in the Department of Treasury, and you have reasons for not reporting the totality of Saudi Arabian investment in the United States."

Toll at U.S. Hotel Hits 113

The Associated Press

KANSAS CITY, Kan. — E.O. Gerstner, a 63-year-old dentist, has died from injuries suffered in the collapse of two skywalks at the Hyatt Regency Hotel, raising the number of deaths from the July 17 disaster to 113. The University of Kansas Medical Center announced.

## Saudis Say AWACS Must Have Special Gear

From Agency Dispatches

JIDDA — Saudi Arabia said Thursday it might reject American-made AWACS radar planes if the aircraft were stripped of their "sophisticated equipment."

In a statement broadcast by the state radio, a spokesman for the Saudi armed forces said the deal was being held up because of Saudi insistence that the planes be fully equipped.

The spokesman denied a report in a Kuwaiti newspaper that the kingdom had agreed to American conditions on the sale of the radar planes, which can provide early warning of an attack by air. The Kuwaiti newspaper Al-Qabas had said the Saudi Arabians were ready to go along with the deal even if the aircraft were stripped of sophisticated equipment.

### 'Zionists' Are Accused

The spokesman did not say what the special equipment was, but there have been reports the Airborne Warning and Control Systems planes would be stripped of some radar components that are used to jam the radar systems of incoming planes.

"If Saudi Arabia had agreed to stripping the AWACS of their sophisticated equipment, the deal would have been concluded a

long time ago without any obstacles," the spokesman said in a statement published by the official Saudi press agency. "But the kingdom's determination to obtain this type of early-warning aircraft, with the communications and control systems it contains, is what has provoked the resentment and fear of the Zionist and other hostile forces."

Israel says the planes would threaten its security. The Reagan administration is facing strong opposition in Congress, which can block the deal.

U.S. officials have said that some of the most advanced equipment for coordinating ground or ground-to-air attacks would not be included in the Saudi AWACS, partly to allay Israeli fears. Some of the gear is so sophisticated that it is not supplied to Washington's European allies.

The planes carry equipment that can detect aircraft attacking from more than 200 miles (320 kilometers) away, compared with about 20 miles for ground radar.

### British Make an Offer

In New York, Foreign Secretary Lord Carrington said Thursday that Britain would be willing to supply Saudi Arabia with Nimrod reconnaissance planes if the American sale fell through. But he said London would not

complete against the United States for the sale.

Although the basic design of the Hawker Siddeley Nimrod is more than 15 years old, a new model has recently been produced specifically for European defense.

### Israelis Angry

TEL AVIV (AP) — Prime Minister Menachem Begin's office declined to comment on the offer made by Lord Carrington, but an official who declined to be named said the proposal was a cause of "anger and more than that."

The official said the British plane could "endanger Israel's security" even though it is less sophisticated than the planes Washington wants to sell to Saudi Arabia.

The official said Lord Carrington's offer came as no surprise in view of what he called Britain's pro-Arab policy.

The aviation reporter for the newspaper Yediot Ahronot wrote that the Nimrod could scan a radius of hundreds of miles for military movements in the air and on the ground. But the paper said it lacked the control equipment that permits the AWACS to function as an airborne command center in wartime.

## King Hussein Is Reassured of U.S. Support

By Loren Jenkins

Washington Post Service

AMMAN, Jordan — The United States has taken the unusual step of saying it "remains committed to Jordan's stability, territorial integrity and security" in an apparent move to allay Jordanian unease stemming from persistent suggestions by Defense Minister Ariel Sharon of Israel that Jordan, and not the Israeli-occupied West Bank or Gaza Strip, should be the homeland of the Palestinians.

Jordanian officials have been concerned since remarks were made during the summer by President Reagan to four Arab ambassadors in Washington that apparently were misconstrued and reported to King Hussein as veiled American support for Mr. Sharon's provocative proposal, according to U.S. officials here.

### A Feasibility Study

What apparently led to this conclusion was a reference by the president to the effect that the real issue was one of Palestinian refugees, not Palestinian land.

The U.S. reassurances were personally given to the Jordanian monarch Wednesday by Ambassador Richard Veits.

The American statement of sup-

port was made to offset official Jordanian unease, expressed by the king himself in a recent Arabic interview, over Washington's position on Mr. Sharon's thesis.

The Israeli official contends that the Hashemite monarchy is an anachronism that should be allowed or encouraged to disappear so that Palestinians, who make up 60 percent of Jordan's population, can establish their homeland there.

Mr. Sharon has advocated such a solution, which is contrary to the official thinking of Prime Minister Menachem Begin, at least since 1975. What has shaken the Jordanians is that since becoming defense minister in the summer, Mr. Sharon has not only continued to talk about his plan, but, according to those who know him well, is actually studying its feasibility.

The reference quickly spread through Jordan as proof that the United States did not care about the parts of Arab Palestine occupied by the Israelis since the 1967 Arab-Israeli war.

The reports have since been magnified into even worse rumors that developed a special life of their own in this desert kingdom of 2.2 million people, heightening a national sense of insecurity that has mushroomed since Israeli

planes flew over Jordan in June to bomb an Iraqi nuclear reactor near Baghdad.

Rumors in the Middle East are but a part of the political reality confronted by policy-makers. But what alarmed U.S. officials was that they were apparently accepted, at least in part, by the king himself.

The Jordanian monarch told of this concern in an interview early this month in the Paris-based Lebanese weekly Al-Mustakbal in which he spoke of there being a "plot" for an Israeli occupation of Jordan that would allow the Palestinian issue to be solved on Jordanian territory — presumably, he hinted, with U.S. acquiescence.

### Commitment Reaffirmed

"In my opinion," King Hussein was quoted as saying, "they are searching for a situation in which Israeli hegemony can be expanded to include Jordan."

Privately, King Hussein and his aides have sought to portray the interview to Westerners as a case of the king's statement being taken out of context. But U.S. officials believe that was not the case at all, prompting this week's statement by Ambassador Veits.

In a prepared statement of clar-

ification to lay the rumors to rest, Mr. Veits sought to reassure King Hussein, who, in an interview earlier this week, showed increasing nervousness about where the Reagan administration stands on the basic issues underlying the Middle East conflict.

"The Reagan administration, like its predecessors, is strongly committed to preserving the unique and enduring character of Jordan," said the American statement given to the king. "The United States remains committed to Jordan's stability, territorial integrity and security. We believe that a secure Jordan, under your leadership, will continue to be a moderate force in the region and continue its commitment to peace."

Whether that would be enough to counter Jordanian concern about Mr. Sharon's remarks remained to be seen. Though many Jordanians believe that Israel would not dare conspire to try to topple the king without U.S. approval, many others, including members of the government, say they are not so sure. They say Mr. Sharon has always been unpredictable and that Israel, as it did in Baghdad, is not beyond acting on its own without consulting the United States.

## Air Force Told to Assume Land MX Will Be Scrapped

(Continued from Page 1)

blueprint calls for building 12 Airborne Warning and Control Systems (AWACS) sentry aircraft to patrol the borders of North America.

### Sophisticated Devices

The administration's new strategic program sets aside money for sophisticated devices that would be hitched to military navigation satellites in space to detect a nuclear explosion anywhere on Earth. The pursuit of nuclear weapons by governments in the developing world gave impetus to this research effort.

Pentagon sources also said the Reagan administration, in a budget-cutting move, has decided to retire the 52 aging Titan-2 intercontinental ballistic missiles between 1983 and 1987, at least five years earlier than had been planned.

The Titan-2s, first deployed in 1963, are the oldest and largest missiles in the U.S. strategic arsenal. They are liquid-fueled, and thus far more dangerous to operate than other U.S. missiles. Over the last few years, the Titans have been plagued by leaks of highly toxic fuels and two major accidents.

### Testimony on Outbacks

WASHINGTON (NYT) — Secretary Weinberger told the House Budget Committee that the Air Force would lose some B-52 long-range bombers and an Army division would be reduced to skeleton

## Armenians Hold 25 in Paris Raid

(Continued from Page 1)

policemen tried to get into the offices immediately after the attack but were repulsed by a burst of gunfire.

The messages of the organization said "all the hostages inside the consulate will be executed" unless the demands are met, and that the building "and all the people inside" would be blown up if French forces tried to intervene.

The messages were signed by the "Suicide Commandos of Yeghnia Kechichian," a cell of the Armenian Secret Army for the Liberation of Armenia. Mr. Kechichian was presumed to be a member of the Secret Army slain on a mission.

A witness who escaped from the building told reporters that the leader of the gunmen, a short, thin, bearded man, had fired shots at a Turkish security guard who tried to overpower him.

### 'War of Vengeance'

The consular employee said he was working in his office when he heard someone shout in French, "Don't move." Then, he said, several shots were fired.

Turkish students, who said they were in the center's student service office and escaped through the windows, claimed they had heard three or four shots fired inside the building.

The Armenian Secret Army for the Liberation of Armenia has been waging a war of assassinations and bombings against Turkish diplomats and government offices to avenge the massacre of Armenians by Turkish soldiers during World War I. An estimated 1.5 million Armenians were killed and half a million were forced to flee as refugees.

The ASALA has claimed responsibility for more than 100 attacks on Turkish diplomats around the world.

### Floods Hit Italian Riviera

The Associated Press

SESTRI LEVANTE, Italy — Flash floods struck the Italian Riviera and downpours hit Venice and the Emilia region of northern Italy on Thursday.

## Mitterrand, at First Press Conference, Asks Support and Moves to Calm Fears

By Edward Cody

Washington Post Service

PARIS — President Francois Mitterrand, in his first news conference since coming to power, called on the French people Thursday to rally around him and create a "national élan" for making his Socialist program the law of the land.

Mr. Mitterrand's appeal for support in what he called France's "great task" seemed designed at least partly in response to increasingly vociferous opposition from French big business and the political right to his nationalization and taxation proposals, which are expected to breeze through the Socialist-controlled National Assembly in the next few weeks.

In an apparent attempt to calm concern that has also reached the middle classes, Mr. Mitterrand pledged that his government will undertake no nationalizations, other than those already announced, before legislative elections scheduled in five years. In addition, he said the government plans no increase in taxes next year on top of those added this year.

But the thrust of his remarks was that the Socialist program is going to be enacted despite the protests from the right, and that, consequently, all France — including businesses — should get involved.

"Working together and national élan — this is the conviction that every Frenchman and Frenchwoman should have to be part of a great task," he declared.

After a review of his government's actions since taking over four months ago, Mr. Mitterrand said: "Of course, much remains to be done. I have the means to do it. Neither the time nor the will is lacking for me to carry out my promises."

He added later: "I am not here to please everyone. The rules of the game are set for a long time, at least until the next legislative elections in five years."

Mr. Mitterrand and Prime Minister Pierre Mauroy put the final touches to the nationalization bill in Wednesday's Cabinet meeting. Scheduled for submission to the assembly on Oct. 8, it calls for nationalizing five major industrial firms and 36 private banks with deposits over a cutoff level of about \$185 million.

Two steel companies are also being nationalized by changing their heavy debts to the government into shares, giving the government majority ownership. Special negotiations are under way for the takeover of three more industrial groups with significant foreign ownership.

Former Prime Minister Raymond Barre, in his first public response to the Socialist plans, charged Wednesday that the result will be higher inflation and still more unemployment because of what he called "incoherent policies."

Mr. Sonoda, who was seeking some sign of Soviet willingness to consider Japan's claim to the Soviet-occupied islands just north of the Japanese island of Hokkaido, received no encouragement on this issue, reporters were told.

At the same time, Mr. Gromyko was described as agreeing "with pleasure" to reopen high-level Soviet-Japanese talks on overall political issues, which had been suspended since the intervention in Afghanistan.

Mr. Gromyko, who has been foreign minister since early 1977, received recognition of his longevity from Mr. Haig.

Within earshot of journalists admitted to record the first minutes of the meeting, Mr. Haig said, "I read your bibliography last night, evidently meaning Mr. Gromyko's biography. 'I hadn't realized you'd started in 1943.'"

Mr. Gromyko quickly corrected Mr. Haig, noting that his career began in 1929 — when he joined the U.S. affairs section of the Foreign Ministry. In 1941, he was assigned to Washington as ambassador of the Soviet Embassy. In 1943, the year cited by Mr. Haig, Mr. Gromyko became ambassador to the United States. At that point, Mr. Haig was a student at the University of Notre Dame.

## WORLD NEWS BRIEFS

### Egyptian and Israeli Negotiators Outline Goals

The Associated Press

CAIRO — Egyptian, Israeli and U.S. delegates, hoping to revive long-stalled autonomy talks, said Thursday they would seek agreement on "understandings and principles" during lower-level meetings during the next four months.

The modest objective set by the two days of talks here appeared to fall short of Israeli hopes of speeding agreement on a self-rule plan for 1.2 million Palestinians living in Israeli-occupied lands.

"The ministers established as their initial and immediate objective, not excluding other avenues, an agreement on understandings and principles toward the implementation of the framework agreed on at Camp David," a statement said. Another meeting was scheduled for Oct. 21 in Israel.

### Namibia Draft Is Ready, Western Nations Say

Reuters

UNITED NATIONS, N.Y. — Five Western countries announced Thursday that they have drafted a set of constitutional principles designed to clear the way for the independence of South-West Africa (Namibia).

Details were not disclosed, but the United States, Britain, France, West Germany and Canada said the plan was "likely to secure the confidence of all concerned." The announcement said the plan would be presented to the parties concerned in October.

Thursday's meeting followed talks in Zurich this week between senior South African officials and Washington's assistant secretary of state for African affairs, Chester A. Crocker. The Western countries have been trying to secure implementation of a plan for the future of the territory, a former German colony ruled by South Africa in defiance of United Nations resolutions.

### Pakistan Bans an Afghan Resistance Meeting

The Associated Press

QUETTA, Pakistan — Pakistan banned a meeting here Thursday of Afghan tribal leaders who were trying to organize anti-Soviet fighters independently of the often-fighting insurgent parties based in northern Pakistan.

"We give them shelter but we cannot allow the Afghans to take up political activities," a government spokesman told Western reporters. About 600 Afghans were present when 100 riot police surrounded them and a local magistrate declared the gathering illegal.

Abdoul Qader Khan, an organizer, charged that the Afghan tribes conspired with local officials to sabotage the jirga, or tribal council. The major parties have had excellent relations with the Pakistan government, but friction between the groups reportedly has led to mass bloodshed within Afghanistan.

### Belgian Ex-Minister to Explore Cabinet Crisis

United Press International

BRUSSELS — King Baudouin Thursday asked Willy Claes, deputy premier in the outgoing Socialist-Christian coalition, to explore the possibilities of solving the three-day-old Cabinet crisis.

Mr. Claes, a Flemish Socialist who also was economic minister in the government of Premier Mark Eyskens, does not have to try to form a new Cabinet. A Royal Palace announcement said the king asked him to "analyze all the elements of the political, economic, social and budgetary situation and to submit his conclusions concerning the formation of a new government or the dissolution of parliament." If parliament is dissolved, new elections will have to be held within 40 days.

The crisis broke out Monday when French-speaking Socialist ministers started a boycott of all government work, demanding absolute priority for a comprehensive plan to finance the recovery of the ailing Cochill-Sambre steel combine in Wallonia.

### Court Says Pope's Assault Was Part of a Plot

The Associated Press

ROME — The court that convicted Mehmet Ali Agca of trying to kill Pope John Paul II said Thursday it believes the Turk was part of a plot and called on state prosecutors to track down his accomplices.

But the Court of Assize, in its legally required 50-page report giving reasons for sentencing Mr. Agca on July 23 to life in prison, admitted that it had no evidence of who might have ordered him to kill the pope. The shooting of a cardinal who did everything by himself, the court wrote. "He was the fruit of a complex plot orchestrated by hidden hands interested in destabilization. But... the evidence gathered has not permitted the state to discover the people behind the conspiracy..."

### Gandhi Urges Foreign Pullout From Cambodia

United Press International

JAKARTA — Prime Minister Indira Gandhi of India on Thursday stressed the need for a withdrawal of foreign forces from Vietnam-occupied Cambodia but defended Indian recognition of the Cambodian regime.

Mrs. Gandhi, on a 17-day Asian and Pacific tour, made the remarks at a news conference after a meeting with Indonesian President Suharto. India's recognition of the Hanoi-backed government in Cambodia is a sore point with Indonesia and its four partners in the Association of Southeast Asian Nations.



## Influx of Haitian Refugees Strains U.S. Facilities, Miami's Patience

By Gregory Jaynes  
New York Times Service

MIAMI — Summer is the time when the sea between here and Haiti is calmest, and so most fit for crossing. Two or three thousand Haitians took advantage of the flat sea this year, packing themselves 60 and 90 and sometimes 120 into a 30-foot boat that a seasoned captain would not trust in a cattle pond. Steering for freedom, they went straight to jail.

There are now 1,062 Haitians detained here at a former missile base on the edge of the Everglades. The base, called Krome North, has a "design capacity" of 530, which means the Haitians do not have much more space than they had on their boats.

The overcrowding has forced the U.S. Immigration and Naturalization Service to shift 800 to a former naval base, Fort Allen, in Puerto Rico. Smaller groups have been sent to federal facilities in New York, West Virginia and Kentucky.

The summer just ending has been a loud one in Miami, with civil libertarians proclaiming the refugees' rights, the refugees themselves going at Krome, and the city growing more acrimonious over unwelcome guests competing for scarce jobs.

This was the summer of a sold-out bumper sticker that asked the "last American" leaving Miami to "please bring the flag." It was also the summer that a bogus poster, based on a tourism advertisement urging Miami's visitors to "see it like a native," showed a fetching beachcomber armed to the teeth over the legend, "steal it like a native."

Some say the feelings are part of the general mood of the country after dozens of small boats brought 125,000 Cubans, many viewed as thugs, to southern Florida in 1980. Some others criticize a national immigration policy that appears kind to people fleeing Communism, but unkind to those fleeing countries friendly to the United States. For whatever reason, the government has been tougher on Haitian arrivals than at any time in nine years, in which time 44,000 Haitians are known to have arrived.

### Rush to Judgment

"What I keep in mind," said Mike Trominski, a spokesman for the naturalization service, "is that these are illegal aliens, just like Germans or French or any other nationality would be if they tried to enter this country without the proper documents. I think this has been lost sight of."

The Immigration and Naturalization Service has been careful not to use the word "refugee" during the state of federal court action the Haitians' arrivals have triggered. The main question has been which Haitians came to find jobs and which to seek political asylum.

"The government seemed bent on a new policy of taking care of them rather rapidly, one guesses to discourage others from leaving Haiti," said Bruce Winick, a University of Miami law professor who has used to slow things down. "The refugees were double-timed up back stairs to avoid public hearings. I mean it was just lunacy. There were mis-

translations. They understood asylum to mean insane asylum. The INS was quick to infer a waiver of their rights when in fact the refugees had no idea what was going on."

In July, the government began hearings at Krome where it contended that the Haitians, most having been picked up at sea, never technically entered the United States and can thus be excluded, a process swifter and simpler than deportation.

Attorneys for the Haitians argued unsuccessfully that Krome, a 45-minute drive from central Miami, was too far away to hold hearings.

One lawyer who made the trip anyway was Steve Forrester. "They scheduled us regularly to be in two or three courtrooms at the same time," he recalls. "On Aug. 4, I had 29 hearings going on in three courts. I had four people deported because I couldn't get there. I was literally running between courtrooms. I'd ask for a continuance of 10 days and not get it. I'd ask for two hours. No. Ten minutes." He said that one judge "gave me 10 minutes; the other two gave me a brief moment."

### A Victory

On Sept. 3, about 600 of the Haitians at Krome started chanting "liberty or death." Miami is our country and "we are free." They threw stones at guards; the guards threw tear gas canisters at them. Ninety-eight escaped but were caught quickly. The next day, 120 were transferred to the Federal Correctional Institute at Otisville, N.Y.

Early this month the Haitians won a victory when Judge Alcee Hastings issued a temporary re-

straining order in U.S. District Court barring exclusion hearings or deportations of Haitians not represented by attorneys.

The most recent developments in the Haitian story were the government's refusal to parole detainees to sponsors or family, and a proposal to reopen an abandoned Air Force base in Glasgow, Mont., for up to 2,000 illegal aliens.

In New York, Ira Gollobin, a National Council of Churches lawyer speaking for the Haitians, said last week that he had submitted sponsorship papers for 60 of the 76 held at a former Navy prison in Brooklyn.

"We said clearly they wouldn't abscond and they are not subversive," he said. "We haven't heard a peep from the INS. Here they are supposed to be economizing... and we've got over 2,500 Haitians in the pokie, costing hundreds of thousands of dollars."

The proposal to move the bulk of the Haitians to Montana has been heavily criticized, mainly because of the cold, windy climate and a lack of legal counsel. The INS says that no decision has been made. The Missoulian, a daily newspaper in the region, has editorialized that the move would be "brutal" to the Haitians.

In Miami, meanwhile, the chop is getting rougher out beyond the bay, but two more boats made it to shore last week. One bore 66 passengers who were in good shape because they had come only from the Bahamas. The other boat had been 21 days at sea from Haiti, and as its 113 passengers gained the beach, one dropped dead from dehydration.

## Weinberger Broadcast Clarified by Pentagon

By Michael Gerler  
Washington Post Service

WASHINGTON — The Voice of America has broadcast an interview with Secretary of Defense Caspar W. Weinberger followed by an unusual clarification, issued by the Pentagon, of what Mr. Weinberger said.

Mr. Weinberger, who was the guest Sept. 16 on the VOA program "Press Conference USA," was questioned about U.S. allegations that the Soviet Union may be involved in use of chemical-biological warfare in Cambodia. The program was not broadcast until Wednesday.

His answers seemed to imply that the United States might be considering either revising treaties banning such warfare or developing an ability to "respond in kind" as a way to deter Moscow.

Mr. Weinberger's lengthy answers appeared to surprise or confuse the reporters who questioned him.

### Balancing Force

At one point, Mr. Weinberger said: "One of the things we have to do is to make sure we have some kind of balancing forces and indeed are embarked upon the necessary, embarked upon the course that will redress this imbalance."

At another point, he said: "Possibly a knowledge that [the Russians] face retaliation in kind might be a deterrent that would prevent these things from ever having to be used."

Asked if he were saying that U.S. participation in the convention outlawing biological warfare is under review, Mr. Weinberger said no. But he added that as the review of evidence about Soviet involvement continued, this "might lead us to make some appropriate recommendations involving the existing treaties."

The United States cannot allow one power to accumulate "mass quantities of weapons without any kind of counterbalancing deterrent," he said.

The program was to have been broadcast Saturday. A VOA spokesman said it was delayed at the Pentagon's request because the Pentagon thought Mr. Weinberger's remarks would "anticipate" a UN debate that may take place this week on the U.S. charges.

It is known, however, that Mr. Weinberger's remarks also caused

a stir within the State Department concerning what the defense chief said, not just when he said it. Asked if anything else would accompany the broadcast, aired over VOA's worldwide English-language service, the VOA spokesman said the following announcement would be included:

"Since this program was recorded last week, the Defense Department has requested that the following clarification, which the secretary made to members of the panel following the program, be appended to this broadcast:

"The U.S. policy regarding biological warfare is very clear. We have renounced any use of biological and toxin weapons and remain in full compliance with the biological weapons convention."

"Secretary Weinberger refers in several instances to deterrence or retaliation in kind. In these cases, he means redressing the imbalance through the development of an adequate protective posture and the development of a modernization program for chemical weapons, the construction of the first phase of which has been approved by the president and supported by Congress."

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## Senate Moves to Tie Salvador Aid to Reforms

By Judith Miller  
New York Times Service

WASHINGTON — The Senate has tentatively endorsed a measure that would require President Reagan to certify that the government of El Salvador was making progress in implementing human rights, economic and political reforms as a condition of U.S. military aid.

Disregarding a plea from the Salvadoran president, José Napoleón Duarte, that the conditions be eliminated, the Senate voted 54-42 Wednesday in favor of a biannual certification.

The measure, sponsored by Sen. Claiborne Pell, Democrat of Rhode Island, was offered as an amendment to a proposal by Sen. Richard G. Lugar, an Indiana Republican. Sen. Lugar's amendment would eliminate the certification requirement entirely. The Senate is expected to consider the Lugar

proposal when it takes up the \$5.3-billion foreign aid authorization bill again.

Sen. Charles H. Percy, Republican of Illinois and chairman of the Foreign Relations Committee, endorsed the certification concept but read into the record a letter from Mr. Duarte asking that the restrictions be deleted.

### 'Unacceptable Imposition'

"I hope that the Senate will recognize the conditions as an unacceptable imposition on a government friendly to the United States and fully committed to fulfill its pledge," the letter said.

Mr. Reagan, in a letter to Sen. Percy, urged the Senate on Wednesday to approve his foreign aid legislation, warning that reductions in the assistance programs would have "serious repercussions on our foreign policy and would

endanger our national security objectives."

"America today faces some of its most serious challenges abroad from the adventurism of the Soviet Union and its proxies in such areas as Southwest Asia, the Caribbean, and Africa," Mr. Reagan wrote. The foreign aid bill for fiscal 1982, which begins Oct. 1, contains \$25 million in military aid and \$53 million in economic assistance for El Salvador.

### Duarte Interview

WASHINGTON (WP) — In an interview Wednesday with editors and reporters of The Washington Post, President Duarte said he believes El Salvador is on the road to stable democracy, but he warned outside critics of his civilian-military government that the process involves "cultural and structural

problems that can't be solved in one day."

"I believe at this moment the extreme left has lost the people; it has lost the possibility of being an alternative," he said of the leftist guerrillas. He contended that his government, backed by the military, is genuinely committed to form and free elections, that it is working hard to curb abuses by the armed forces, and that a growing understanding of these facts by Salvadorans is weakening his leftist opponents.

The key to ending the civil war, Mr. Duarte said, is for all forces in El Salvador, including the leader of the leftist political opposition, Guillermo Ungo, to renounce violence and seek elections. He insisted that the armed forces, despite their history of repression, are committed "as an institution" to holding and respecting "genuinely free elections."



President José Napoleón Duarte, in a speech at the National Press Club in Washington during his American visit, pledged to work for the success of the electoral process in El Salvador.

## California Sees Victory In Fight Against Medfly

Washington Post Service

LOS ANGELES — After a month without a major outbreak of the tenacious Mediterranean fruit fly, California officials have become so confident of victory over the insect that they have ordered an end to roadblocks around infested zones.

Also, despite the possibility of more isolated Medfly discoveries, the California farmers who feared a major agricultural catastrophe now acknowledge that they have brought in a harvest almost untouched by the insect.

"My guess is that we are probably going to see sales 2 or 3 percent over what we sold last year," said Baker Conrad, information director of the Council of California Growers.

The state now has so many Medfly traps, as many as 50 per square mile in some areas, that state officials say they are confident that they can stamp out further small outbreaks quickly.

The last major outbreak, on Aug. 25 in northeast Los Angeles, seems to be under control. Medfly maggots found Tuesday in a peach tree in Castro Valley, south of Oakland, were inside the northern quarantine zone and were not considered a serious threat.

Highway checkpoints to stop the movement of infested fruit from San Francisco Bay counties will be gone by Oct. 1, said Annie Zeller, a Medfly project spokeswoman, and no roadblocks are planned in Los Angeles.

Jerry Scribner, the Medfly projects manager, has said he will accept in principle a recommendation by the project's technical review committee that spraying stop after two Medfly life cycles have concluded. The committee estimated that one life cycle lasts 54 days.

## French Differ With U.S. on Third World Aid

By Bernard D. Nossiter  
New York Times Service

UNITED NATIONS, N.Y. — France has sharply diverged from the United States, urging a large increase in aid to promote Third World development.

Claude Cheysson, the French external relations minister, called on developed nations Wednesday to provide "tens of billions of dollars" in assistance and to write treaties to protect the prices of raw materials exported by underdeveloped nations.

On Monday, Secretary of State Alexander M. Haig Jr. told the General Assembly that a big outpouring of aid was "unrealistic" and that free markets offered the best route to development.

West Germany's foreign minister, Hans-Dietrich Genscher, took a stance midway between his French and American colleagues. He deplored what he called the "stagnation" in foreign aid but backed an open world trading system.

The outcome after three days of speeches suggests that President Reagan may pursue a lonely path when he meets 21 other govern-

### Palestinian Rights Are Emphasized

International Herald Tribune

PARIS — Claude Cheysson, France's minister of external relations, told the UN General Assembly on Wednesday that the Palestinians have "the right to a homeland and a state," a position strenuously opposed by Israel.

Some observers said Mr. Cheysson's statement at the United Nations in New York broke new ground for the Mitterrand government, but authoritative French government sources in Paris minimized its importance.

"It is not a new position for the Mitterrand government, and Mr. Cheysson has expressed the view about a homeland and state previously," a government official said Thursday.

But the position goes beyond that of the previous French government, whose views were closer to those of the European Economic Community, the sources said. The Common Market's position agrees only to support "the legitimate rights of the Palestinian people."

ment leaders at Cancun in Mexico next month to discuss the Third World's plight. Washington not only faces differences with Asian, African and Latin American governments but also with some of its allies in the industrial world.

It was Mr. Cheysson, speaking for the new Socialist government, who most strongly emphasized the gap. He said the world was gripped by an economic crisis and asked

countries to raise the prices of the commodities on which many depend for export earnings.

Above all, Mr. Cheysson said, "economic renewal" in the developing world depends on "tens of billions of dollars to be injected wherever they are most desperately needed." Such aid, he argued, would lift the buying power and enlarge the markets of the poor.

The French minister endorsed other goals that the Third World hopes to reach in a "global negotiation" involving all 155 United Nations members. He told the developed nations to grant preferential or lower tariffs to products exported by underdeveloped countries. Some now exist, but the Reagan administration does not like them.

Mr. Haig urged Third World nations to join the General Agreement on Tariffs and Trade, a forum where nations exchange lower trade barriers on a more or less equal basis. A preferential tariff, favoring Third World countries at the expense of their industrial competitors, breaches this system.

Mr. Cheysson proposed an early start on the global bargaining round.

retorically. "Who can claim that this crisis will be set right solely by the forces of the marketplace?"

"We are living in a world without order, a mad world," he said. He called for "a system of international agreements" to end "speculation and uncertainty."

This was interpreted by Third World delegates as emphatic support for a major item on their agenda: treaties or international

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## Focus on Missiles in Europe

Given the truism that negotiations are preferable to war, either cold or hot, it is welcome news that U.S. Secretary of State Alexander M. Haig Jr. and Soviet Foreign Minister Andrei A. Gromyko have set a date for talks on limiting nuclear missiles in Europe. Similarly, it was encouraging to hear from Richard N. Perle, assistant secretary of defense for national security policy, that the United States will be ready in about six months to enter into strategic arms limitation talks. Both announcements should gratify beleaguered West European leaders such as West German Chancellor Helmut Schmidt. They will now be able to tell their left-wing opposition, "See, the United States does believe in arms control."

Barring a Soviet invasion of Poland, a major intensification of fighting in Afghanistan or something like a 1981 version of the U-2 incident, the theater nuclear talks will begin on Nov. 30. It would be folly to try to predict the detailed outcome of such talks, but it is worth reviewing the broad outline of the U.S. and Soviet positions to try and get a feel for whether there is room for maneuver.

The United States would like the Soviet Union to remove its medium-range missiles, against which there is currently no Western counterforce. Failing that, it intends — West Germans, Italians, British, Belgians and Dutch willing — to install 464 Cruise missiles and 108 Pershing-2s in Britain and on the Continent. The Soviet Union would like to maintain its present advantage. To do this it would agree to stop deploying SS-20s, which are currently being added at a rate of about one every five days, only if the United States would agree not to deploy the Cruises and Pershings.

The Soviet Union has a substantial advantage in theater nuclear forces — more than 3-

1 according to "The Military Balance 1981-1982," which was just published by the International Institute for Strategic Studies. To achieve anything approaching parity, the West must either deploy missiles or persuade the Soviet Union to take out most of its SS-20s, plus older SS-4s and SS-5s and some newer short-range missiles. There is every reason to think that the former outcome is more likely than the latter.

With respect to SALT, Mr. Perle emphasized that the United States would regard negotiations as the beginning of a new process, not the continuation of one that began in the Nixon administration. He said that the United States would insist that a new treaty be verifiable and that it would seek on-site inspection as well as verification by satellites and other so-called national technical means. The Soviet Union categorically rejected a less sweeping approach early in the Carter administration and it has always opposed on-site inspection.

Nevertheless, neither set of talks is totally without promise if the United States takes the right tactical approach. The negotiations should not be used for macho displays of anti-Soviet rhetoric. If they are, it will poison the atmosphere in Western Europe, making it politically difficult for the Cruise and Pershing deployment to go forward, thereby strengthening the Soviet position in the theater nuclear talks. At the same time, the United States should not give away something for nothing. Its stated goals in both sets of negotiations are correct and should not be compromised. If the administration proceeds in a pragmatic, nonideological way, however, there is more to be gained than lost by talking.

INTERNATIONAL HERALD TRIBUNE

## Who Will Pay?

When Jimmy Carter revised his economic program yet again in March, 1980, the Boston Globe editorial had two titles. The first, an embarrassing prank, was "Mush From the Wimp." It was quickly corrected to read: "All Must Share the Burden." Thursday night, when President Reagan revises his economic program, not even pranksters will be tempted to revise the first headline.

But there is ample reason to fear that the second won't apply either. This president seems determined to march in straight lines — but at whose expense? Who will pay? Who will share his burden?

We hope that it will not, after all, be those least able to pay: poor people and distressed cities already struggling to stay afloat.

A character in "Doonesbury" recently bragged about the Reagan program by saying, "No one suffers but the poor, and they're used to it." That's not just comic-strip sarcasm. The burden Mr. Reagan has already set out is not equitably shared. For example, federal grants to cities and states account for only 14 percent of the budget, says the Joint Economic Committee of Congress — but two-thirds of the budget cuts fall on those programs. And that's before the \$16 billion in additional cuts that Mr. Reagan has ordered.

The economy is in trouble and there's no way to rescue it without pain. Mr. Reagan earned the right at the polls to try his way. And though it is far from certain he is right, grant him his assumption that the right course is to prove Washington can be trusted to push steadily toward a balanced budget. But there are several ways to do that, and the administration rejects all except one.

Probably the most obvious course is to modify the mammoth, poorly targeted new tax cut. No dice, says Treasury Secretary Regan. "Spending reduction is the only route to a balanced budget."

Then why not slow down a bit on the rapid infusions of defense spending? The Pentagon

needs increases, but must they be so fast? Yes indeed, says the administration. Though he needs to cut \$91 billion in three years, the president is asking defense to account for only \$13 billion.

Another way to close the deficit would be to slow civilian spending for the upper and middle classes — by adjusting farm subsidies, overgenerous automatic increases in Social Security or tax breaks for homeowners. Mr. Reagan deserves credit for trying last spring to sweep out the holy Social Security sanctum. But the political gods thundered, and he's not likely to try again.

Then what's left? If the administration is unwilling to salvage some more revenues from the tax cut, or find economies in defense increases or undo extravagance in politically popular programs, who is left to share the burden? The poor.

Anti-hunger spending is rising faster than estimated. No problem. The answer, it appears, is less money (for food stamps and pregnant mothers) — and less food (for school lunches). Why don't those welfare bums get a job? One reason is that the CETA program to create jobs is about to die. Why don't welfare mothers get married? Under new regulations, a poor man who marries a poor woman with children forfeits most benefits.

In any case, all these economies are in an uncertain cause. Assume that Mr. Reagan achieves his \$16 billion in further cuts for 1982. Will that create the right kind of expectations on Wall Street? Maybe, but it's still a gamble.

Many people, who might lose only money, can afford to gamble with Mr. Reagan and can easily endorse the principle that all must share the burden. But it will be chilling if the president draws his stakes mainly from those who have nothing more to gamble with than their hunger, health and future.

THE NEW YORK TIMES

## 'Quiet Diplomacy' in Action

Here is the sequence: 1) Jeanne Kirkpatrick, U.S. ambassador to the UN, while visiting Chile, pronounces herself unaware of the precise status of the Orlando Letelier assassination case in the Chilean courts and calls for normalizing U.S.-Chilean ties. 2) Two days later, the Santiago regime summarily exiles four prominent opposition politicians, including Jaime Castillo Velasco, head of the human rights cause in Chile and the lawyer pressing the Letelier family's appeal before a military court. 3) A few weeks after that, the court rejects the appeal, leaving the now-lawyerless Letelier family unable to pursue the lone and final legal step available for gaining what vindication is possible in a police state.

Mrs. Kirkpatrick's statements affirming human rights and due process were big news in the Chilean press while she was there. But it insults her diplomatic acumen to suggest that it never occurred to her how the government might react to her remarks on the Chi-

lean political exile who was murdered in Washington just five years ago. Obviously, the Chileans weighed her every word. They had other pretexts, all craven and arbitrary, to exile Mr. Castillo — a political adversary of Mr. Letelier's while Chile's democracy flourished, by the way — and the three others. But unquestionably the military government knew that a military court was bringing the Letelier case along, and it could see a window opening to get rid of it once and for all.

The ambassador has conveyed to Santiago, quietly, her profound personal regrets at what she takes to be the coincidence of her visit and the expulsions. It goes without saying, she says, that this administration does not condone any arbitrary legal process anywhere, including that which victimized Mr. Castillo. The trouble is that too much in this regard goes — too often — without saying by spokesmen for the Reagan administration.

THE WASHINGTON POST

### In the International Edition

#### Seventy-Five Years Ago

September 25, 1906

PARIS — The tragic death of M. Lipietz, who succumbed to heart failure due to the excitement produced by a hostile demonstration against those employers who failed to carry out the terms of the law on the weekly day of rest is the sensation of the day in Paris. It has brought the question of the Sunday day of rest prominently before the public. The République Française comments: "One could under certain circumstances understand that citizens should indulge in manifestations at public meetings to obtain a reform. But on the present occasion the reform has been voted and the representatives of public authority are superintending its execution. What do the people want more?"

#### Fifty Years Ago

September 25, 1931

MADRID — A century-old feud between two branches of the Bourbon family has come to an end with the reconciliation of former King Alfonso of Spain and Prince Don Jaime of Bourbon, respectively heads of the rival sections. According to reliable sources, Don Jaime formally renounced the claim to the throne of Spain, inherited through his grandfather, the Infante Carlos. The renunciation, made at Fontainebleau, is believed to have been effected in favor of the Infante Don Juan, Alfonso's son, now a naval cadet at Dartmouth. As Alfonso has manifested a desire to abdicate in favor of his son, the reconciliation is regarded as a consolidation of the monarchist front against the new Spanish Republic.

## Danger of Backing The Wrong Horse

By Stanley Karnow

WASHINGTON — President Reagan has committed the United States to the support of authoritarian regimes in developing countries on the theory that they represent the best defense against Communism. But his simplistic policy unwittingly encourages the very extremists he hopes to destroy.

A case in point at the moment is the Philippines, once the proud possession of the United States in the Pacific, whose corrupt and repressive oligarchy headed by President Ferdinand Marcos recently received a big boost from the Reagan administration.

On a visit to Manila last long ago, Vice President Bush hailed Mr. Marcos for his "adherence to democratic processes," and that extravagant praise has since caused a serious polarization of the forces in the Philippines.

### Opposition

Mr. Marcos is opposed by three principal groups — moderate politicians, left-wing radicals and Moslem separatists operating mainly in the southern islands of the archipelago.

The leftists not only denounce Mr. Marcos, but they are hostile to the United States. They have gradually been building up a guerrilla army, which now comprises several thousand regulars.

The moderates are also trying to unseat Mr. Marcos. However, they want to preserve the relationship between the United States and the Philippines. In particular, they favor the maintenance of the U.S. bases in the Philippines as a key element in the relationship.

### Formed a Front

But with the Reagan administration giving Mr. Marcos its unqualified endorsement, the moderates have rapidly been losing ground to the radicals, who are currently stepping forward to assert themselves as the only effective resistance movement.

In time-honored Communist fashion, the radicals have formed a front organization, the National Democratic Front, in an effort to mobilize

frustrated moderates as well as Moslem insurgents under their aegis. The tactic is undercutting the middle-of-the-roaders.

Benigno Aquino, a former senator and a moderate foe of Mr. Marcos now in exile in Boston, exemplifies the gloomy prospects for his faction. "Reagan," he told me the other day, "has blown us out of the water."

The radical cause is being helped by the worsening economic situation in the Philippines. Unemployment is on the rise, and foreign investment is declining. The country is in a hole to the tune of \$14 billion, and Mr. Marcos has no remedy for the economic deterioration.

### Hot Cash

Wealthy Filipinos, smelling the rot, are illegally sending their money out of the country, reportedly at the rate of some \$75 million per month. They are contributing to the real estate booms in places like Singapore, Hawaii and California.

An investment group armed with a good deal of hot Philippine cash recently paid a record \$475 million for a piece of property in Hong Kong. Many of these affluent Philippine businessmen are intimates of Mr. Marcos, and their shenanigans are tarnishing the regime's image.

### Rare Antiques

So are the activities of Imelda Marcos, the president's handsome wife. One story has it that she laid out \$6 million a couple of months ago to buy a collection of rare antiques in New York.

True or not, such tales are raising students, Roman Catholic priests and others who used to believe that Mr. Marcos could be opposed legally. Horacio Morales is an example of the trend.

A former member of the Marcos economic staff, he disappeared four years ago, after being elected one of the country's outstanding young men by the Junior Chamber of Commerce. He recently surfaced as an activist in a clandestine Communist guerrilla band, exclaiming Mr. Marcos for his



"That Solves the Problem of How to Deal With Authoritarian Regimes."

"subservience to American interests" and demanding the creation of a "revolutionary coalition."

The United States gives the Philippines some \$250 million per year in military and economic assistance, and the Carter administration used the program to exert pressure on Mr. Marcos to display a measure of leniency.

Mr. Aquino, for instance, was released from jail after eight years of confinement in order to undergo a heart operation in Texas. He had been arrested on charges of fomenting violence.

Mr. Marcos, who declared martial law after seizing power nearly a decade ago, recently made some cosmetic changes. He lifted martial law and held an election in which he won an indecent 88 percent of the votes. Nobody of any consequence ran against him.

The election was a blow to the moderates, since it gave Mr. Marcos a degree of legitimacy, and thereby intensified the appeals of the radicals, whose illicit opposition is attracting support.

In June, when Mr. Bush toasted Mr. Marcos, he pledged that "we stick by you and will not let you be isolated." But that is precisely the potential danger for the United States in the Philippines.

For as the situation polarizes into extremes, the United States could be isolated with Mr. Marcos or his hand-picked successor against a growing leftist menace that the Reagan administration inadvertently helped to promote.

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## New Reality Outweighs the Old in Poland

By William Pfaff

PARIS — No one seems to have noticed that what Poland's reformers meant to accomplish has already been done. They now need to confirm their achievement. Poland's people have been given a voice. Their will is felt. Solidarity's elections are democratic elections. The Communist Party has even opened itself to free debate and contested elections. There is open debate in Poland. There is no longer a monopoly of power. All this is an astounding accomplishment.

A new reality has been created. The Soviet Union still tries to deal with Poland through the existing channels, but this is not effective because the relevant reality now lies outside the effective reach of the Communist government in Warsaw. Frustration is evident in what the Soviet Union is saying and doing about Poland: it has found that it cannot reach what it needs to reach if it is to have an effect upon events in that country.

### After the War

The Poles have been able, unilaterally, to change their relationship with their own Communist authorities, and with the Soviet Union, by deliberately creating a second Poland — another, popular, Poland, with a parallel existence to official Poland, with which others now must deal.

For a long time after the war, there were Poles inside the country, and there were Poles outside the country, who argued that it was necessary to come voluntarily to terms with the Soviet Union, and with the imposed Communist system. In return, they looked for modest reforms in that system. They considered themselves realists, "positivists." There was history behind their arguments. Poles have always had to deal with the consequences of their geographical misfortune, to live between Russians and Germans.

### A Measure of Autonomy

Collaboration with the Communist Soviet Union was, even before World War II, a program which some Polish conservatives could support, as well as left-wing Poles. The conservative argument was that since the Soviet Union was weaker than Germany, and Poland's survival depended upon a balance between the two, Poland had to cast its weight with the Soviet Union. Since the war, the "realist" argument has been that an alternative exists to collaboration with the Soviet Union, the Western powers having long since abandoned Poland.

But for the case for positive collaboration to convince, the Soviet Union had to concede a measure of internal autonomy to Poland. Unless the Poles could live their own lives in matters most important to them, why collaborate?

### Repression

In the 1950s and 1960s, repeated attempts were made in Poland to convince the Communist authorities there and in the Soviet Union to grant certain internal reforms that would not affect the country's external commitments to the Warsaw Pact and to Soviet military security.

These attempts failed. Dissidence was repressed. Concessions

made after the popular unrest of 1956 did not last. Student protests in 1968 and strikes in 1970 and 1976 were put down. Intellectuals and militants were arrested. The "realists" were finally provoked to conclude that since Communist authority was unyielding, "romanticism" necessarily became the only possible realism. Since the state would not change, society would have to be changed despite the state. A new reality would have to be created independently of what the state did or wanted.

This has been done by means of the workers' defense movement, KOR, in the 1970s, the organization of factories and peasants, *samizdat* publications, the "Flying

university," and all the other initiatives which culminated last year in the founding of Solidarity.

The new reality of Poland is now expressed in Solidarity. The government itself is in a dangerous situation because the new reality outweighs the old; governmental power, in important respects, has become an illusion. Government authority exists so long as no one tests it. If the government should seriously attempt to repress Solidarity, it is the government which is likely to collapse. Its attempts thus far to control Solidarity have merely radicalized the movement.

Official attacks during the first session of Solidarity's congress, in early September, provoked the ap-

peal for support from workers in the Soviet Union and the other East European countries. The authorities brought it on themselves, even though no serious person within Solidarity can have thought that the appeal would prove other than a gratuitous provocation of the Soviet Union, making matters worse for everyone.

### Present Risk

But this is exactly the present risk. Pressure from Moscow provokes Solidarity to formulate its own demands in political language. Yet Solidarity began as a union, and its essential goals remain domestic and social, concerned with the lives of Poland's

people and the reform of the economic system. When the Soviet Union insists that this is "counter-revolutionary" and amounts to a bid for political power, everything becomes more difficult — for the Soviet authorities as well as for the Poles. And while there is no romanticism today among the Poles about struggle and conflict, there is fatalism.

It is a fatalism that might serve a constructive purpose. The Poles know that they must get along with the Soviet Union. They have always known it. The vital question is whether the Russians understand that they also have to get along with the new Poland.

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## How Presidents Trap Themselves

By Joseph Kraft

WASHINGTON — To the annals of how presidents trap themselves there should now be added the case of the Glenn English letter. It centers on a handwritten note from Ronald Reagan to a Democratic congressman from Oklahoma — Rep. Glenn English.

The subject was a windfall-profits tax on natural gas. By promising in writing to veto such a tax, the president unnecessarily compromised one of the few good ways to master the country's basic economic problem.

Natural gas — a fuel that is odorless, colorless, easy to move and abundant provides more than 25 percent of the national energy diet. It is used extensively for residential heating and in energy. Total production is about 20 trillion cubic feet annually — the energy equivalent of about 10 million barrels of oil daily.

Pricing is controlled by the Natural Gas Policy Act of 1978. The

act provides for phased decontrol of about 40 percent of all natural gas by 1985, with the rest never subject to decontrol. Under the Reagan administration, a Cabinet committee headed by Treasury Secretary Donald Regan unanimously recommended complete decontrol of all natural gas over a three-year period ending in 1985.

Complete decontrol of gas would raise the price to consumers from a present average equivalent to about \$12 per barrel of oil to about \$25 per barrel. There would be an increase in the basic Consumer Price Index, but conservation of gas would be spurred importantly. There might be some backing away from oil into newly available and more economical gas — thus reducing dependence on foreign oil.

Profits to the gas producers would rise by an estimated \$50 billion annually after decontrol. Some of that could be recovered in a windfall-profits tax on gas, akin to that now levied on oil.

All these considerations were in the air in July when President Reagan started his stretch drive for passage of the massive three-year tax reduction bill. Congressman English was one of the House Democrats — so-called ball werens — whose vote the administration sought. Mr. English wrote the president a letter expressing the hope of producers in his district that there would be no windfall-profits tax on gas.

The Oklahoma congressman was among the Democrats invited to discuss the tax-reduction bill with the president over lunch at Camp David on July 26. As the group was leaving, the president took Rep. English aside and said he had read his letter and agreed with him in opposing a windfall-profits tax on gas.

Rep. English said he would like an expression of that sentiment in writing. The president then sent him a handwritten "Dear Glenn" note on Camp David stationery. The business part of the note said: "Confirming our brief conversation regarding the natural gas situation. I want to express my feelings about the possibility of a windfall-profits tax never being applied to natural gas. I am opposed to that type of tax, and believe it is counterproductive. If legislation should ever be passed calling for such a tax, I would — with pleasure — veto such a bill."

Exactly why the president wrote that note is not clear. Probably a mixture of conviction and congeniality. Certainly it was not a political necessity. Rep. English had not pressed the case very hard, and had not insisted on a commitment in writing. He was set to vote with the administration on the tax-reduction bill anyway. But at that time, the issue didn't seem very important and the president's letter was largely ignored.

### Scrambling

Not any more. The budgetary outlook has changed, and the administration is scrambling to cut a deficit that threatens to reach \$100 billion in fiscal 1984. A windfall-profits tax on decontrolled gas is one of the best available means to bridge the gap.

It would yield large revenues, probably \$25 billion in the first full year of decontrol. It commands wide support in the administration and in the Congress. The resistance of the oil and gas lobby would be dulled by its interest in decontrol. The inflationary impact would come at a time when prices are going down — particularly in the case of oil, a substitute for gas. Any adverse impact on truly needy consumers could be softened by rebates.

With all that going for it, a windfall-profits tax on decontrolled gas remains a possibility. But, of course, the president's note represents a big obstacle. Which is why the Glenn English Letter Case is a classic example of how presidents box themselves in.

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## INTERNATIONAL **Herald Tribune**

Published with The New York Times and The Washington Post

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Paris No 77 2112 179-181, rue de la Paix, 75001 Paris, France  
Telephone: Tel. 467-4141 Telex: 61791 Herald Paris Cable: Herald  
Paris. Director of the publication: Walter H. Thomas, U.S. representative  
p. 5211 yearly. Second class postage paid at Long Island City,  
N.Y. 11101 © 1981 International Herald Tribune. All rights reserved.  
Composition: Paris No 77 2112

General Manager: Adm. Alan Lomax 24-24 Broadway Road, Room  
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# Tape Reveals Nixon Wanted 'Thugs' Used Against Anti-War Protesters in 1971

By Seymour M. Hersh  
New York Times Service

WASHINGTON — A newly disclosed White House tape recording shows that President Richard M. Nixon, angered over widespread civil disobedience in Washington during demonstrations in May, 1971, opposing the war in Vietnam, endorsed a suggestion that "thugs" from the Teamsters union be used to assault the protesters physically.

In a wide-ranging conversation on the morning of May 5, 1971, shortly before a third day of demonstrations, Mr. Nixon and H.R. "Bob" Haldeman, then the White House chief of staff, animatedly discussed an idea raised by Mr. Haldeman of hiring Teamsters to "go in and knock their heads off," as the president put it.

"Sure," Mr. Haldeman responded. "Murderers. Guys that really, you know, that's what they really do... it's the regular strike-buster types and all that... and then they're gonna beat the [obscene] out of some of these people. And, uh, and hope they really hurt 'em. You know... smash some noses."

There is no evidence that the Nixon-Haldeman conversation resulted in any direct action against

the demonstrators. There is also no evidence that any U.S. law-enforcement agency has investigated the possibility that the president might have authorized a criminal act.

## Lawyer's Statement

R. Stan Mortenson, a Washington lawyer who is Mr. Nixon's attorney in matters relating to the White House tape recordings, was provided an oral summary of key portions of the transcript Tuesday and was asked for comment. He submitted the following statement Wednesday:

"The New York Times claims to have come into possession of a purported transcript of a conversation between Richard Nixon and H.R. Haldeman on May 5, 1971. If the Times has an authentic transcript, there apparently has been an unauthorized disclosure in violation of a federal statute, court order or regulation. Who committed this act is known only to the Times at this point.

"What the New York Times has appears to be a transcript prepared by the Special Watergate Prosecution Group or another investigative group. It does not conform to the transcript prepared for official court procedures."

Mr. Haldeman, reached by telephone in Los Angeles, said: "I have no comment. I really don't care much what's on the tapes. They're 10 years old."

The 26-page transcript of the Nixon-Haldeman conversation was among more than 750 pages of transcripts prepared by the National Archives in response to a subpoena filed in 1974 by attorneys for about 1,200 protesters who were arrested on the steps of the Capitol on the afternoon of May 5, 1971. Despite intensive litigation over the last seven years, none of the tape recordings or transcripts has been released. U.S. courts have ruled that the arrests in three days of protest were unconstitutional.

## Tape Irrelevant

In his conversation with Mr. Haldeman on May 5, Mr. Nixon also asked if the Chicago Seven, a group of anti-war protesters who had earlier been found guilty of conspiring to disrupt the Democratic National Convention in Chicago in 1968, were "all Jews." After some discussion with Mr. Haldeman, Mr. Nixon said, "about half of these are Jews."

The Times' sources, in providing a copy of the transcript, noted that

the tape recording was no longer relevant, in terms of possible criminal prosecution, because the statute of limitations has expired on possible criminal infractions by Mr. Haldeman, and because Mr. Nixon's presidential pardon, granted by President Gerald R. Ford one month after he took office in 1974, was absolute and unconditional.

An official, however, characterized the recording as of potential benefit to the plaintiffs in the civil damage suit that is still pending against John N. Mitchell, who was the attorney general under Mr. Nixon.

Historians at the National Archives have been listening to and indexing more than 6,000 hours of Nixon White House tapes since September, 1978, a year after the Supreme Court ruled that the government had a right to maintain control over the Nixon papers and tape recordings. Such materials had traditionally been considered the personal property of a president leaving office.

Former members of the Watergate Special Prosecution Force, to whom portions of the transcript were read this week, generally agreed that Mr. Nixon appeared more animated and aggressive in that conversation than he did in the hundreds of hours of tape recordings and transcripts that were made available to the prosecutors.

Those materials dealt primarily with the period after June 16, 1972, when the offices of the Democratic National Committee in the Watergate building were entered. This break-in led to the Watergate scandal, trials in which top White House aides were convicted and jailed, and to the resignation of Mr. Nixon as president on Aug. 9, 1974.

## Political Rebound

Mr. Haldeman, Mr. Mitchell and Mr. Nixon's domestic affairs adviser, John D. Ehrlichman, were convicted and imprisoned on charges that they conspired to cover up the break-in at the Watergate offices. Charles W. Colson and Dwight Chapin, like Donald H. Segretti, were also imprisoned on charges arising from the 1972 campaign.

Mr. Nixon's conversation with

Mr. Haldeman came at a time of political rebound for the president, who had been acutely disappointed in the failure of Republican candidates to achieve major gains in the congressional elections of 1970.

The president's foreign policy triumphs — meetings with the leaders of China and the Soviet Union — were yet to come, and he was being strongly challenged in public opinion polls by a number of Democratic senators, including Edmund S. Muskie of Maine. The Vietnam War was still a major political issue.

At one point, the recording shows, Mr. Nixon and Mr. Haldeman shared laughs over Mr. Haldeman's account of how Mr. Colson, a high-level White House aide known for his total loyalty to the president, had arranged to ship oranges in Mr. Muskie's name to a group of Vietnam veterans who were participating in the protests, known as the May Day demonstrations.

After the laughs, Mr. Haldeman warned the president that Mr. Colson was "gonna get caught at some of these things." Mr. Haldeman went on, however, to tell the president that Mr. Colson had "got a lot done that he hasn't been caught at." Mr. Haldeman also said that "we got some stuff that he doesn't know anything about, too."

In response to a question on this from the president, Mr. Haldeman said that Mr. Chapin, then the president's appointments secretary, had established contact with "a guy that nobody, none of us knows except Dwight... who is just completely removed. There's no contact at all. He's, he's starting to build it now. We're going to use it for the campaign next year."

## 'Thug-Type Guy'

"Are they really any good?" Mr. Nixon asked. Mr. Haldeman replied that "this guy's a real conspirator-type... thug-type guy... This is the kind of guy you get out and tear things up."

Mr. Chapin's operatives, Mr. Haldeman said, had worked against Mr. Muskie during one of his early campaign trips to New Hampshire. With the advent of the renewed anti-war protests, Mr. Haldeman said, "they're gonna stir up some of this Viet Cong flag business."

It was not clear from the transcript what sort of action the Chapin group planned in connection with the waving of Viet Cong flags by protesters. Mr. Haldeman told the president that Mr. Colson, who was responsible for the White House's political ties to organized labor and special-interest groups, was also going to "stir up" activity "through hard hats and Legionnaires."

"What I suggested he do, and I think that they can get away with this," Mr. Haldeman told the president, "do it with the Teamsters."

Just ask them to dig up those, their eight thugs."

Mr. Nixon said "yeah" and agreed that Frank E. Fitzsimmons, who had replaced James R. Hoffa as president of the International Brotherhood of Teamsters, was trying to — as Mr. Haldeman put it — "play our game anyway." It was at that point that the two men began discussing the use of Teamsters "thugs," as Mr. Haldeman put it, against anti-war activists.

## President Aware

The conversation suggests that the president was made aware of the White House "dirty tricks" prior to the election, a charge he has repeatedly denied.

When Mr. Ehrlichman was told this week of the content of the recording, he acknowledged that he had always "assumed" while he worked in the White House that some of the seemingly spontaneous attacks on anti-war demonstrators by workers wearing hard hats "were laid on," or inspired, by the White House.

Mr. Ehrlichman, in Santa Fe, N.M., recalled that the former president had always been anxious about protesters, and that he had sought in the 1968 campaign to hire outsiders "to break up demonstrations."

That theme dominated much of the conversation between Mr. Nixon and Mr. Haldeman on May 5.

## Mikhail Alexeyev Dies; Philologist, Pushkin Expert

United Press International

MOSCOW — Academician Mikhail Alexeyev, 85, a philologist and expert on the 19th-century author Alexander Pushkin, has died in Leningrad, Tass reported Wednesday.

The agency said that Mr. Alexeyev was instrumental in building contacts with other countries and societies interested in studying Russian literature. His writings include "I.S. Turgenev and Music" (1918), "An Outline History of Anglo-Russian Literary Relations, 1168-17th Centuries" (1937), "The English Language in Russia and the Russian Language in England" (1944), and, as co-author, "Shakespeare and Russian Literature."

## Edward J. Sparling

CHICAGO (AP) — Edward J. Sparling, 84, an educator and founding president of Roosevelt University in Chicago in 1945, died Wednesday.

## William R. Norwood

HONOLULU (UPI) — William R. Norwood, 72, high commissioner for the U.S. Trust Territory of the Pacific Islands from 1966 to 1969, died Tuesday.

# House Votes Penalties For Naming U.S. Spies

By Steven V. Roberts  
New York Times Service

WASHINGTON — The House of Representatives has adopted legislation that would make it a crime to reveal the identity of U.S. intelligence agents working under secret cover, but the bill was immediately denounced by critics as unconstitutional.

Before final passage on a 354-56 vote Wednesday, the lawmakers adopted an amendment that strengthened the bill by expanding the kinds of activities that could be considered criminal. Several congressmen alleged that the amended legislation would infringe the First Amendment rights of journalists and other probes of intelligence activities.

Rep. John M. Ashbrook, the Ohio Republican who sponsored the key amendment, defended its constitutionality by saying, "Conspiracy is not new, nor has it ever been a civil or constitutional right."

Rep. Ashbrook, a leading conservative voice in the House, also said Wednesday's action reflected a growing support in Congress for intelligence activities after a period of hostile criticism.

## 'CIA Is on Our Side'

"We went through the mood of the '60s, when we were attacking the CIA," he said. "Now there's a realization that the CIA is on our side, that we need good intelligence."

The measure now goes to the Senate, where the Ashbrook language is already part of the bill, and prospects for passage are considered good.

The legislation was first suggested more than five years ago after the CIA station chief in Athens, Richard Welch, was assassinated by gunmen who have never been caught. Although never fully substantiated, charges were made at the time that Mr. Welch was killed because he had been identified as an agent in a magazine article.

The issue has simmered since then, largely because of the actions of Philip Agee, a former CIA agent who has made a career of discover-

ing, and revealing, the names of other agents. As Rep. C.W. Bill Young, Republican of Florida, said during the debate, "What we're after today are the Philip Agees of the world."

The general thrust of the bill had broad backing from both parties. Rep. Romano L. Mazzoli, a Kentucky Democrat, described its purpose this way: "You can criticize foreign policy, you can point out immoral behavior by U.S. citizens, but you don't have to name names. You don't have to endanger human beings."

## 'Intent' Provision

There was no controversy over sections of the bill that prohibit persons with access to classified information, such as government officials, from revealing the identity of an intelligence agent. The problem came with those who have no direct access to such information but learn agents' identities through other sources.

As it reached the floor, the bill said that members of the latter group, which would include journalists, could only be considered criminal if they revealed identities with the specific "intent to impair or impede the foreign intelligence activities of the United States."

Supporters of this language argued that the "intent" provision was necessary to protect freedom of speech. "Without this kind of specific intent standard," said Rep. Edward P. Boland, a Democrat from Massachusetts who heads the House Intelligence Committee, "this bill would be unconstitutional."

Rep. Ashbrook's amendment removed the "intent" provision and said that persons would be criminally liable if they "had reason to believe" that by revealing an agent's identity they would harm national security interests.

The Ohio Republican argued that President Reagan and the CIA backed his language and that Attorney General William French Smith had judged it "legally sound." The Ashbrook amendment was adopted by a vote of 226-181.



Urho Kekkonen

# U.S. Suit Seeks Landfill Cleanup By Jersey Firms

The Associated Press

EGG HARBOR TOWNSHIP, N.J. — A landfill that has threatened Atlantic City's water supplies for a decade has been described in a government suit as the most serious environmental problem in the United States.

In a suit filed Monday in U.S. District Court in Newark, the government charged that 10 major industrial companies and nine disposal companies were responsible for the reservoir of deadly chemicals at the 22-acre Price's Pit landfill, which is situated 6 miles (about 10 kilometers) from Atlantic City's boardwalk.

"The situation is alarming," said Charles J. Walsh, an assistant U.S. attorney. The government has designated this case the most severe environmental problem in the country.

Atlantic City officials are trying to save 12 fresh-water wells that provide more than half the city's daily summertime water needs. The Environmental Protection Agency says industrial wastes dumped in 1971 and 1972 are oozing into the great Cohansey aquifer of the Pine Barrens, one of the East's purest and most plentiful groundwater supplies.

# President of Finland Is Ill and May Resign

By Werner Wiskari  
New York Times Service

NEW YORK — President Urho Kekkonen of Finland has been on medical leave since Sept. 11, and his close associates are said to believe that the 81-year-old leader, who is in his 26th year in office, may soon have to resign.

The president, who has been suffering from persistent disturbances of the blood supply to his brain, is to continue his leave until Oct. 10. A Finnish diplomat said a determination of Mr. Kekkonen's ability to return to work was expected to be made by then. But the diplomat added, there appears to be growing doubt in Finland that the president will be able to serve out his full six-year term, which has more than two years to run.

The acting president is Premier Mauno Koivisto, a 57-year-old Social Democrat who, according to public opinion polls, has long been favored to succeed Mr. Kekkonen in the next elections.

But Foreign Minister Paavo Vayrynen, chairman of the president's agrarian Center Party, has vowed to do everything in his power to deny the presidency to Mr. Koivisto, who, if elected, would be the first leftist Finnish chief of state.

The foreign minister charges that Mr. Koivisto is too inexperienced in foreign policy to succeed Mr. Kekkonen, who is noted as an ardent practitioner of a policy of neutrality and friendship with all nations, particularly the Soviet Union. Mr. Vayrynen is backing Ahti Karjalainen, a Center Party member and a director of the Bank of Finland, who has served as premier and foreign minister.

President Kekkonen has suffered from occasional lapses of memory for two or three years, causing some delays in consideration of matters of state, but these lapses have increased in severity.

A medical bulletin issued last week said he had persistent cerebral insufficiency, or disturbance of blood supply, and his doctors said the symptoms included memory lapses and absentmindedness.

# Two U.S. Advisers Shot in Honduras

The Associated Press

WASHINGTON — Terrorists firing automatic weapons shot and wounded two members of a U.S. military training team on their way to work in the capital of Honduras, a State Department spokesman said.

The spokesman said the attack at 7:20 a.m. local time Wednesday on five members of a U.S. mobile training team who were driving to their headquarters occurred about the same time that a bomb exploded inside the Honduran legislature in Tegucigalpa, the capital.

The gunmen escaped and a little-known leftist group, the Lorenzo Zelaya Commandos, later claimed responsibility for both attacks, saying they were meant to "repudiate the presence of U.S. military advisers in Honduras."

# More Vietnam GIs Possibly Exposed To Agent Orange

United Press International

WASHINGTON — New evidence indicates that substantially more Vietnam veterans than once thought may have been exposed to Agent Orange when it was rained on populated areas from missions aborted by enemy fire or mechanical failure.

"I don't think anybody quite foresaw that we were dumping chemicals on our own people," Health and Human Services Secretary Richard Schweiker said Wednesday in announcing the finding. Beyond discussing a "substantially larger exposure," he offered no estimate of the number of persons who might have been exposed.

In addition to more than three dozen aborted air missions where thousands of gallons of the herbicide had to be dumped, there is new evidence that it was used along river banks and around the perimeters of military bases, which could have resulted in additional exposure, Mr. Schweiker said.

## European Mayors Meet

The Associated Press

MADRID — King Juan Carlos and Queen Sofia Wednesday opened the 14th meeting of European municipalities, attended by 3,000 mayors, to study matters related to decentralization, community budgets and a future European constitution.

# WORLDWIDE ENTERTAINMENT

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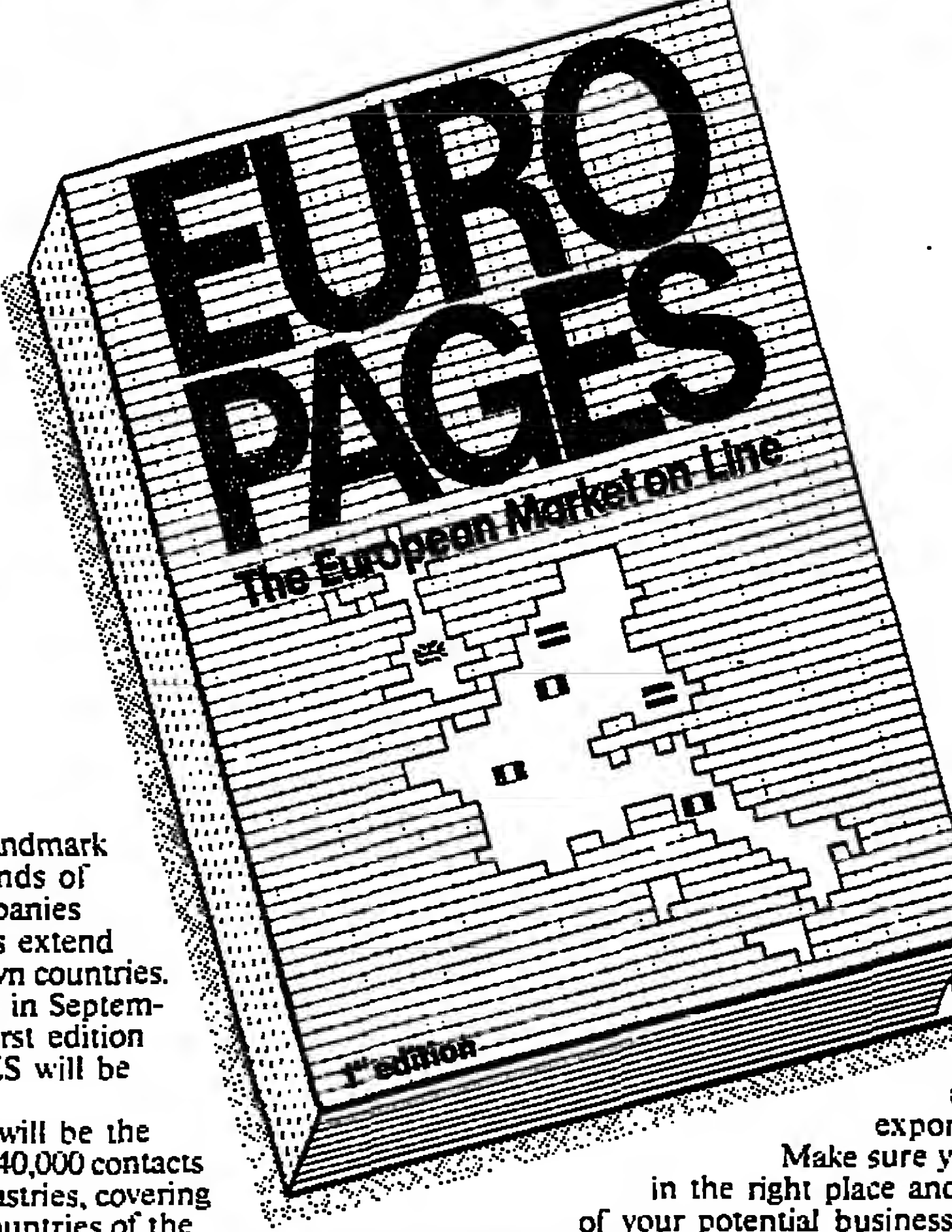


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## NYSE Nationwide Trading Closing Prices Sept. 24

(Continued on Page 14)



**Bell System**

## Reach out and touch someone



# Banking and Finance

## in LATIN AMERICA

INTERNATIONAL  
**Herald Tribune**

Published with The New York Times and The Washington Post

PARIS, SEPTEMBER, 1981

A SPECIAL SUPPLEMENT

### Oil Revenues Thrusting Venezuela, Mexico Into Leading Roles in Area

By Jane Baird

STRANGERS to Latin America often think of it as a homogeneous place, where everyone speaks the same language and shares the same cultural heritage, and where all the countries belong to a category known as underdeveloped. Any banker who operates on this simplistic view is doomed to failure, for beyond these generalities, characteristics differ widely from country to country.

Venezuela is the country most dependent on oil income, and its oil prospects are reassuring. At current rates of production, its 20 billion barrels of reserves should last for another 25 years. By then, the government will have brought the Orinoco heavy oil belt into large-scale production.

Oil exports are expected to earn an ample trade surplus of \$5 billion to \$6 billion this year, but this surplus will surely drop in coming years. Stagnating oil prices will mean stagnating export revenues. The volume of exports is also being whittled away by expanding domestic oil consumption.

#### Second Best Risk

International bankers generally rate Venezuela as the second best risk in Latin America after Mexico. Its spreads have been running higher than in Mexico and three-fourths to seven-eighths of 1 percent over Libor. Venezuela should have little trouble in tapping international credit. The total foreign debt is now \$23 billion-\$25 billion (about \$15 billion public sector), but the roughly \$3.5 billion debt service is less than 20 percent of exports.

The banks' major misgiving about Venezuela is that successive administrations have failed to use the tremendous resources from oil to develop effectively the non-oil sectors of the economy. Former President Carlos Andres Perez (1974-1979) lavished enormous sums on development projects that produced mostly red tape, rampant corruption and a huge import bill. Current President Luis Herrera Campins clamped down on government spending and credit, which helped to bring in a trade surplus and slow inflation but at the cost of a recession from which the economy is only now pulling out.

The government is making an effort to improve its bad financial image. A bill is before Congress to restructure the approximately \$10.5 billion in short-term debt into three-to-five-year obligations. Also in late August, the administration freed interest rates, which should act to cut down a heavy capital flight seeking higher dollar rates, which had become a serious drain on reserves.

#### Budget Surplus in Chile

In Chile, economic policies are similar to the recent strategy that José Martinez de Hoz followed in Argentina. The peso has been frozen at P 39 to \$1 since June, 1979, while inflation has been about 65 percent since. Import tariffs have been lowered to a uniform 10 percent, and Chile has been besieged by manufacturers from Brazil and Peru. Interest rates are determined by the market and credit is costly.

But there is a big difference. The Chilean military has made a whole-hearted effort to follow free-market policies, including cutting spending and selling off public enterprises. The government expects to show another budget surplus this year, a feat that is almost unheard of in Latin America. As a result, the Chileans have had more success in dragging down inflation, expected to be 12-14 percent in 1981.

The skies are not completely sunny, however. The most threatening cloud on the horizon is Chile's rapidly widening trade deficit, about \$2.2 billion from May 1980 to May 1981. Manufactured exports have dropped off, and the price of copper has dropped below \$1 per pound, while consumer imports have soared. The trade gap has forced the government to tap international markets for larger loans. The foreign debt is expected to increase from \$11.2 billion at the end of 1980 to \$13.5 billion by the end of 1981, while 1981 debt service is a hefty \$1.2 billion. In addition, industrial production is down to a slow 2.5 percent growth rate, and foreign investment has fallen off because of the over-valued peso.

These problems are not so extreme that they are leading Chile into the recession now being experienced in Argentina. The most probable result will be a partial retreat from free-market policies, with such measures as devaluations, export incentives and import restrictions.

#### Crisis in Peru

Peru pulled itself away from a foreign exchange crisis and near default less than three years ago. More recently, the economy emerged from a severe contraction under an IMF-agreed austerity program. But Peru may

be headed for a repeat of the crisis if its economy continues along its present course.

International reserves plummeted from an ample \$1.3 billion at the end of 1980 to \$540 million by the end of May 1981. Prices of metals and oil exports and volume outputs of agri-

#### International bankers generally rate Venezuela as the second best risk in Latin America after Mexico.

The civilian government of Fernando Belaunde Terry is having little success in controlling its spending. Monetary authorities had originally planned on a fiscal deficit equivalent to 4 percent of GDP this year, but by August the deficit was reported at 7.6 percent and climbing. The administration was also asking Congress for authorization to increase the ceiling on foreign borrowing for the year by 50 percent, from \$1.4 to \$2.1 billion, the highest figure Peru has ever borrowed in one year. Early in the year, the government had announced a \$20 billion 1981-1985 development plan, calling for a heavy \$11.5 billion in foreign borrowing. The foreign debt burden is already \$9 billion. If these trends continue, they will not only destroy the long-needed development of Peru's infrastructure and social services, but they will ultimately throw the economy into another tailspin.

Colombia's trade and budget figures are taking a pronounced turn for the worse this year, because of dismal prices for coffee, the leading export and source of government revenue. The current account deficit has reversed from a \$735 million surplus in 1980 to an estimated \$600 million deficit this year, and the fiscal deficit is headed for \$1 billion or more. Despite Colombia's shortcomings, its international reserves remain well over \$5 billion this year, while its foreign reserves are only (Continued on Page 11S)

### Brazil Struggles to Avoid Financial Reckoning Day

LATIN AMERICA is built on a grand scale, from the Amazon jungles to the peaks of the Andes to the vast pampas. Its resources include oil in the trillions of barrels, fertile land, copper, iron ore, bauxite, zinc and tin. Yet most of its people live in poverty. As its resources are immense, so its needs are enormous. As a region, Latin America has become the largest borrower of international capital. In 1980, its Eurodollar borrowing amounted to \$19 billion. This year, the total may be almost twice that. Much of these funds are destined for fantastically productive or lucrative ventures — such as Carajás, the world's largest and most-varied mineral deposits; Itaipu, the largest hydroelectric project; the Orinoco heavy oil belt, with estimated reserves of 700 billion to 3 trillion barrels. The risks are also large. In the 1970s, Peru and Chile approached default but succeeded in rescuing their economies. Bolivia and Costa Rica are teetering on the brink as they frantically attempt to scrape together foreign exchange, roll over payments and renegotiate their debts. The most awesome prospect, however, is presented by Brazil: A Brazilian default could plunge the world financial system into chaos.

By James Wygand

A FAMILIAR anecdote in Brazil tells of the man who owed a friend a considerable amount of money. Payment was due the following day and the man could not sleep. As he paced the floor muttering, his wife lost patience, went to the telephone and called his creditor. "Is it true," she asked, "that my husband owes you a big sum of money by tomorrow morning?" Hearing an affirmative, she responded: "Well, he's not going to pay you." She then turned to her husband and said, "There, now get some sleep and let him pace the floor."

Brazil's bankers appear to be in the same situation as the creditor. For the last two years, Brazil has managed to avoid the day of reckoning on its burgeoning debt service burden, each year by a slightly narrower margin.

The country's debt level is a rather staggering \$60 billion in medium- and long-term financing alone. About 70 percent is in the form of foreign financial credits, which are tied to Libor (the London interbank offered rate) or the U.S. prime rate.

Since these rates have been in the 14- to 20-percent range since 1979, it does not take sophisticated mathematics to determine that Brazil's debt service is weighty. Total interest expenditures on the medium- and long-term debt are expected to be about \$8 billion. Amortization of the principal will be another \$8 billion. Debt service, therefore, amounts to about 60 percent of Brazil's projected \$24 billion in exports this year.

Worse still is the country's "vulnerability coefficient" — the relation of the debt service to international reserves and exports — which will reach more than 60 percent in 1981 from just under 35 percent in 1980. This deterioration is due to a sharp rise in interest expenses, a bunching-up of amortization payments in the 1979-1983 period and a sharp depletion of the country's reserve position.

Most bankers assume (at least in private) that the country will have to approach the banks for a renegotiation of its debt in mid-1982. Even with a debt renegotiation, however, Brazil is in deep trouble.

Just how did a country with the world's highest long-term growth get itself into such a mess? Oil is the facile answer, and it is partially correct. The country does depend on foreign supplies for more than 80 percent of its oil needs. Transportation and distribution systems in Brazil are based almost entirely on automobiles, buses and trucks — that is, oil. Similarly, the country depends heavily on fuel oil to run its industrial sector.

#### National Euphoria

But it is not enough to blame the rise in oil prices. The 1973 oil price increases arrived at a time of national euphoria. From 1967 through 1973, the economy almost tripled in size as the country's industrial sector registered double-digit growth rates in each of the seven years. The groundwork for what is often called the Brazilian economic miracle was laid in 1964, after the military deposed the government of President Joao Goulart.

Brazil captured the imagination of the business world with a dose of state-sponsored capitalism that offered low wage rates, liberal tax incentives and a generous profit remittance law for foreign firms. Industry came running and behind it the bankers.

Even with the first oil price increase, the economy appeared sound. Growth slowed to more modest rates, dropping to slightly more than 3 percent in 1975. Brazilians were not prepared for slow growth, however. The industrial sector was nervous. After such heavy investment, the reduction of growth would leave firms with a great deal of expensive excess capacity.

It was decided to stimulate the economy again. Brazil sold itself to the rest of the world as an island of tranquility in a turbulent world. Bankers bought the image. Awash in newly acquired petrodollar liquidity, the banks raced to lend Brazil the money necessary to continue purchasing the oil to keep the economy running at full throttle. Growth in the gross domestic product rose to more than 9 percent in 1976. Inflation also inched upward, after having been brought down from an annual rate of 110 percent in 1964 to about 16 percent in 1972. By 1976, inflation had risen to more than 40 percent and showed signs of climbing further.

Responding to the alarming inflation figures, the government again applied the brakes, driving GDP and industrial growth down in 1977. Just as inflation started to show signs of falling, however, the political pressures for continued growth were too much.

The economy was reheated again in 1978, this time through heavy investments of government-owned firms, which began crowding out private investment. This created a double bind. The private sector faced the possibility of being squeezed by government competition on one side and by slow growth on the other. To stay alive, firms sought credit. The government sought credit also. The banks, still heady from the huge petrodollar deposits, were only too willing to oblige.

Thus, Brazil increased its debt significantly — from \$32 billion in December, 1977, to an expected \$60 billion in 1981.

#### Brazil's Debt (in billions of U.S. dollars)

1976	1977	1978	1979	1980	1981
26.0	32.0	43.5	49.9	53.8	60.0

With the change in government in 1979, an intra-ministry battle for control of economic policy ensued. Planning Minister Mario Simonsen and his policies of demand restraint eventually gave way under a bureaucratic and philosophical onslaught from the agriculture

(Continued on Page 11S)



GOING FOR THE MONEY — Floating cranes move toward an oil-drilling site off Venezuela. Thanks to oil, the nation is expected to show a trade surplus of \$5 billion to \$6 billion this year.

### Resources Attracting Investors to Region

By Pamela Bayless

PETROLEUM, precious metals, copper, iron ore, coal, hydroelectric potential, strategic metals. Latin America's natural wealth has made the region the top investment choice in the developing world: It receives 56 percent of a total \$95 billion invested.

The region's strengths range from forests and fertile plains for agriculture, once the leading investment area, to a 7-percent average annual growth rate, which creates a large market for manufactured goods. And some of the world's largest mineral and energy resources demand the construction of vast infrastructures in uninhabited tropical and mountainous terrain.

The kinds of investment vary from country to country, and the risk escalates in areas of political instability. Oil-rich countries like Mexico and Venezuela can afford to turn a nationalistic cold shoulder to foreign investment in certain sectors, even though Mexico is experiencing record levels of such investment. Formerly left-leaning regimes such as Chile and Peru are now courting foreign investors to help rebuild a free-market economy.

Chile's economists, the "Chicago boys," have encouraged foreign investors with one of the developing world's most liberal investment charters — low interest rates, low taxes, little government interference.

Bolivia sees foreign investment in mining, oil, gas and farming as a key to its future. In some countries, bargain sales crop up

as formerly state-owned companies are put up for acquisition. Chile's Corfo, the development arm, has offered its last seven firms, including a fishery and wood products company, and one bank, along with 40 percent of the state steel producer. Near-bankrupt industries in Argentina — airlines, appliance companies, agribusinesses — are on the auction block. Even the Venezuelan Development Corp. is selling off 60 concerns, ranging from a cement company to hotels.

In Brazil, multinationals who fueled the "economic miracle" of the 1970s now find an economic nationalism that makes them less than welcome, with a law expected soon to lessen their autonomy. The exception is in energy projects; indeed, nearly all net importers of oil (and some exporters) are encouraging foreign investment in the energy sector.

#### Iron Ore

Brazil presents the largest opportunity in the mining sector. The country has let it be known that foreign companies may help develop and exploit its "treasure trove" of minerals, the Serra dos Carajás, in the Amazon jungle near Belém. Literally stumbled upon by a Brazilian geologist forced to make an emergency helicopter landing in 1967, Carajás may yield \$11 billion to \$15 billion annually in mineral exports after 1990, enough to make Brazil a leading mineral exporter.

Carajás contains 18 billion tons of highest-quality iron ore deposits — 11 percent of world reserves — which should produce 35 million metric tons of iron ore alone by

1985. In addition, there are 1 billion tons of copper, 60 million tons of manganese, 40 million tons of bauxite, 9,240 tons of tin, 47 million tons of nickel and 100 tons of gold. Zinc, lead, tungsten and uranium exist in unknown quantities. Known reserves alone would command \$543 billion at present prices.

The government estimates that the Carajás project will demand \$61 billion for implementation over 15 years, including \$34 billion for massive development of a 4,000-megawatt hydroelectric dam, 23 mining and refining industries, a 560-mile railroad and an ocean port, and agribusinesses. The government has already committed \$3 billion to infrastructure and extraction costs.

International loans will be needed, and foreign companies will find a place in joint ventures for plant implementation and technology for minerals extraction and processing. While the government says it is open to foreign capital and is giving concessions such as an exemption from corporate tax for the first 10 years and heavily subsidized energy costs, the plans to bring in foreign investors have caused controversy among Brazilians.

On a much smaller scale, Chile, with one-fourth of the world's copper reserves, encourages foreign investment in the mining sector. Although long-term copper price projections have been discouraging, some attractive fields in state domains are now open to international investment.

The state-owned Mineroperu wants to en-

(Continued on Page 10S)

### Miami Becomes a Latin Business Center

A SWIFT transformation has taken place in southern Florida over the last 25 years. Sunny Miami, the southernmost city of the United States, has become the northernmost city of Latin America.

It began in the 1950s with the flight of Cubans from Fidel Castro's regime, until today the 1.7 million population of Miami-Dade County is 40 percent Spanish-speaking. The business expertise, connections and cultural links the Cubans brought have made Miami "the Bridge" — the perfect place to do business with Latin America.

No longer a sleepy port city of Spanish students and palm trees, Miami hums with activity. Mirror-glass office towers reflecting bright sunshine are rising continuously along Brickell Avenue and Biscayne Bay to house major banks and financial institutions; a World Trade Center is in the works.

There is nothing *manana* about Miami. The city moves. Some 2.8 million international visitors will descend on Dade County this year, 1.3 million of them Latin Americans, who will spend an estimated \$1.9 billion. (Dade's projected international tourist revenue will be \$4.2 billion, up from last year's \$3.6 billion.) They come to "Latin America's largest shopping center" to stock up on cloth-

ing, color TVs, and all manner of household items. In all, a couple spends an average of \$100 per day on a 15-day trip.

They come increasingly to bank; an estimated \$4 billion in "flight capital" finds hands in Miami banks, whether from political or economic turmoil at home, the gambling casinos of nearby Nassau or the illicit drug trade. And they come to invest: Latinos are buying everything from *pied-a-terre* luxury condominiums on the bay and undeveloped land to industrial properties and Florida state banks for investment.

Fueling Miami's fantastic growth have been the financial institutions, many open since the 1978 International Banking Act (IBA) and the Florida state legislature with loosened constraints on foreign banks. Some 75 foreign banking institutions, with an estimated \$2.3 billion in assets, now vie for the lucrative business of deposit taking and financing foreign trade. On Dec. 3, Miami's international banks will be able to open International Banking Facilities to tap the vast "offshore" Euromarkets.

"Miami is becoming the financial center for Latin America; nothing will reverse that trend," says Nicholas Cross, manager of Lloyds Bank International Ltd., in Miami, since passage of the IBA. "It's a great city. We

felt we could make a hell of a lot of money here; we have been fully satisfied."

Mr. Cross, like most managers, has been attracted to Miami not only for its links to Latin American trade but for its highly educated bilingual workforce and the sophisticated communications infrastructure — 72 carriers provide direct flights to all Latin American capitals, and direct telephone dialing is possible to all south of the border countries.

#### Dramatic Trade Increase

International trade moving through Miami is increasing dramatically, from \$5.4 billion in 1979 to \$7.5 billion in 1980; this year's estimate is \$10.1 billion. Venezuela is southern Florida's top trading partner, with \$1.6 billion in 1979. The No. 1 region is Latin America, followed by increasing shares from Europe and the Far East. More than \$5 billion in goods was shipped to Latin America and Caribbean countries from Miami in 1979.

A foreign trade zone, established in 1975, enables some 200 companies engaged in international trade to move goods through Miami tax-free, and a new \$21 million air cargo terminal serves to expedite most of those goods

(Continued on Page 9S)

### Argentina's Recession May Be 'Subtle' — but It Runs Deep

A VISITOR to Argentina for the first time may not believe that the country is in a recession. Where are the beggars and the gangs of unemployed that stand on street corners, and isn't Argentina reaping a bountiful grain harvest this year?

The signs of recession in a rich country are more subtle. Restaurants and stores are not filled as usual, job notices draw more applicants, and the fleets of yellow taxi-cabs have multiplied in Buenos Aires as laid-off workers turn to self-employment. "This is a very deep recession," said a U.S. banker. "The government can paint it pink, yellow, green or purple, but that won't change the fact."

The reasons are not immediately obvious. The economic picture is cheerful in several important aspects: bumper grain exports will bring in a trade surplus projected to be as much as \$3 billion in 1981, production of oil and gas is increasing and the country is soon expected to be self-sufficient. The recession arises from fundamental changes in the structure of the Argentinean economy.

#### New Government

In 1976, when the military junta overthrew the unstable government of Isabel Peron, it called upon a wealthy businessman, José Martínez de Hoz, to be Minister of Finance, and salvage a grossly inefficient economy burdened by over 30 years of heavy state-ownership and interference, and a high degree of protection for private industry.

He achieved most of his goals: opening the economy to free market forces, clearing away price controls and import prohibitions, slashing import tariffs and freeing interest rates. But the scourge of Argentina's triple-digit inflation persisted.

In December 1978, Mr. Martínez de Hoz adopted a new anti-inflation strategy — mini-devaluations of the peso at a rate slower than inflation. According to theory, this would

gradually make imports cheaper, which would gradually force local producers to become more productive and restrain their prices, which would in turn bring down inflation. In practice, however, he failed to convince the military to carry out an essential part of the theory — divestment of the myriad state-

**Bumper grain exports will bring in a trade surplus of as much as \$3 billion and oil and gas production are increasing. The problem arises from fundamental changes in the structure of the nation's economy.**

owned companies and a reduction of the government's spending.

As a result, inflation did come down, but only to 88 percent, still much higher than the devaluations, and the peso became increasingly overvalued. The more the peso became

over-valued, the more the savers and investors began to fear possible future devaluations and contemplated exchanging their pesos for dollars. To prevent a massive capital flight, the Central Bank pushed up interest rates to wildly lucrative heights of 20-30 percent over inflation.

#### Results of Recession

The combination of these policies was enough to drive Argentina into a recession. Manufacturers found that they couldn't raise prices because of cheap imports, while the little cash they could collect went on burdensome interest payments. Some companies cut back production; others stopped manufacturing a product and started to import it; others, including some of the largest conglomerates in the country, declared bankruptcy and dissolved. These corporate failures pulled down about 60 banks in their wake.

When Mr. Martínez de Hoz finished his term in March 1981, the structure supporting the peso promptly crumbled. The first act of the new Minister of Finance, Lorenzo Sigaut, was to decree a 30 percent devaluation. This was enough to undermine investors' faith in the peso and in government promises. Within two months, two successive stampedes out of the peso forced Mr. Sigaut into more devaluations to stem a rapid drain of international reserves.

He was finally able to impose some stability on currency markets by establishing a dual-exchange rate. For financial transactions, the peso was allowed to float. For exports and imports, the Central Bank fixed the exchange rate and planned to continue with monthly mini-devaluations.

After six months of crisis, Argentines could finally take stock of the damage: The peso, starting off the year at about P 2,100 to the dollar, was lower by mid-September. International

(Continued on Page 9S)



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## Banking and Finance

### World's Banks Fight for Share of Action

WHEN a developing region has vast, untapped energy potential, high levels of growth and the largest slice of foreign investment, the international banks can't be far behind. Latin America is now the world's largest borrower of international capital, and the world's most aggressive banks are flocking to meet the demand.

Moreover, Latin America's banks are heading overseas to set up business in increasing numbers. "It's a global game now," said James W. Bergford, executive vice president and Western Hemisphere coordinator for Chase Manhattan Bank. "This is not the American ballpark it once was."

The big U.S. money center banks are making the most of their international profits in Latin America: Chase posted 19 percent of its income before securities transactions there last year — \$70 million. Citibank, the largest lender in the region, earned 41 percent (\$150 million) of its international profits in Latin America.

Now other banks of the world are joining in. The continent's oldest bank, the Bank of London and South America (Boisa), has been a presence for 120 years. Barclays Bank and the Royal Bank of Canada have long-established businesses. But lately other European, Canadian, and Japanese banks, following trade flows, and Arab consortium banks are entering into the region and finding the climate much to their liking.

#### Understandable Difficulties

The profit picture helps bankers overcome their qualms about the region's understandable difficulties: notorious political instability, endemic high inflation running 58 percent in the region, high debt loads, a declining growth rate (from a high 7 percent average to 6 percent), coupled with one of the world's highest population growth rates, 2.7 percent, a warning of approaching social unrest.

Nevertheless, international bankers insist they are there for the long term and that the long term in Latin America is looking good. "You stay through the hard times as well as the good," says William R. Rhodes, Citibank's senior vice president and senior corporate officer for Latin America and the Caribbean. "Each country has its ups and downs, but all of Latin America is attractive."

Most of the large banks are finding their corporate business is growing in Latin America. Both Citibank and Chase have 60 percent of their Latin business in the corporate sector, with private, mixed and public companies. Latin America has become increasingly dependent on the international private banking sector, and its private sector is bringing the greatest amount of capital into the region. More Latin corporations went directly to the international capital markets than ever in 1980, and found a warm reception.

Mr. Rhodes said, "Local currency business is mainly with the private sector, and that's normally our most profitable business. The spreads are generally greater in the local currency than in Eurocurrencies." Citibank does one-third of its Latin American business in foreign currencies.

#### Repayment

Nicholas Cross, vice president and manager of Lloyds Bank International Ltd.'s Miami operations, agrees. "It's more risky to lend to the private sector than to the public sector or the banks, but we are equipped to assess risk through our branch network, which knows the quality of the company's management. What's really important is the ability and the will to repay — the balance sheet is history."

Mr. Rhodes and other bankers believe their private sector lending will continue to grow. He sees two trends ahead in Latin American banking — more private sector participation and a greater welcome for foreign private investment.

Loan syndications and public sector project loans remain an important segment to most foreign banks operating in the area, as does business with financial institutions and individuals. But as Mr. Bergford says, "We will have to work harder for increasingly elusive income." Increased competition has led Chase and other banks to pursue income from banking services — trade finance, funds transfers, management fees for loan syndications, corporate financial counseling and mergers and acquisitions, among others.

#### Bank Expansion

Banks are expanding in Latin America in various ways. One of the most eyebrow-raising was Bank of America's acquisition this year of Argentina's flourishing Banco Internacional for \$144.6 million, adding 60 branches to its existing seven and making it the largest foreign bank in that financially troubled country. Other banks entering a country for the first time may decide a branch is

*The profit picture helps overcome qualms about instability, and most bankers say the long-term outlook is good.*

unnecessary if lending is primarily to the public sector; a representative office may do as well.

If correspondent banking is an important game, a branch may be viewed as competitive with local banks, the potential correspondent clients. Those banks interested in retail operations must evaluate the economy of a target country and its long-term objectives as well as its openness to foreign institutions. Some countries, among them Colombia, Venezuela and Mexico, don't permit full bank branches or subsidiaries. Citibank is the sole exception in Mexico, since it kept its full-service branch, established in 1929, in operation when other banks fled the revolution in the late 1930s.

#### International Expansion

But while foreign banks are doing their best to garner stakes in Latin America, the region's bold local banks are making a dramatic move overseas. Their reasons are various. In some cases, it may simply amount to flag-planting without a clear purpose or business plan in mind. But the most aggressive are going with definite goals: to attract capital flows to the home office, to continue growing through market expansion, or to follow domestic business overseas.

In doing so, they are building networks with access to international capital markets and establishing their credibility in the world banking community. And, not incidentally, they are posing a challenge of their own to the international banks with Latin American operations.

Mexico's four largest banks are now established in New York and London. Most of them went abroad with a clear purpose, to funnel money home to help alleviate a capital shortage in Mexico. The oldest Latin American bank away from home is Banco Nacional de México (Banamex), which opened an agency in New York in 1929. But only 10 years ago did the bank decide to truly "internationalize."

"We realized that we had been

operating as a representative office, not really taking advantage of all the functions possible with agency status," explained Clifton T. Hudgins, New York agent for Banamex, one of Mexico's two leading banks, with approximately \$14 billion in assets, which had reached its share limit at home.

The New York agency assumed the U.S. dollar clearing functions for its head office, undertaking the "whole spectrum of the bank's dollar business," said Mr. Hudgins. Good cash management, with U.S. interest rates running at 18-20 percent was vital, since the proximity of the two countries creates an extensive business in dollars. As the bank's North American headquarters, the agency funds the bank's activities, maintains a small credit department, participating in syndications "to maintain our presence in that market," and goes after the Mexican business of U.S. corporations.

"We are unique in the Latin American market," said Mr. Hudgins. "Mexico has lots of international business, which we didn't have to develop. We can help corporations with their Mexican business. Our expertise is geographic; our business is Mexico."

The new thrust has paid off. Statistics of the Federal Reserve Bank in New York show Banamex's New York agency has grown from \$15 million in assets in 1974 to \$750 million in 1980.

#### New Yorks Newcomer

A relative newcomer to the New York scene is Banco Río de la Plata S.A., Argentina's largest privately owned bank with \$1.5 billion in assets and the first private bank to go overseas. Like the Mexican banks, other Latin American banks chose New York for access to the financial markets and international banking community but more importantly, because of trade relationships with the United States.

Banco Río de la Plata set up a Panama affiliate in 1978 and moved into New York with an agency in October, 1979. In two months, the bank plans to open a

representative office in London, as it is attractive for access to the Euro market.

Roberto Ruiz, the New York regional general manager, explained the strategy behind the bank's moves. "Panama was an intermediate step, to gain more understanding of international business, but the United States is the most relevant trade partner for Argentina."

#### Saturation Level

Río de la Plata, a wholesale bank, had reached the saturation level at home and felt the effects of "negative fluctuations in the economy," Mr. Ruiz said, since its customers are Argentina's multinationals, large corporations and public sector corporations — "the GDP of Argentina."

Mr. Ruiz stressed, "We came to expand into new markets and to provide correspondent services to other Argentine banks; we did not come to acquire debt for the home office." In the process, Mr. Ruiz added, "We gained an ability to support some Argentines with business outside Argentina and to extend relationships between multinationals and Argentina to countries outside."

"We are like a consulate here," Mr. Ruiz said, a major source of technical and legal information, plus information on the Argentine business environment and advisory services to corporations wishing to enter that market.

The banker said that since establishing the New York office in October, 1979, he had had a "crash course in crisis management," with the taking of U.S. hostages in Iran, the credit crunch and skyrocketing U.S. interest rates, the economic crisis in Argentina and changes of government and economic policy in both the United States and at home. Despite the tough environment, Mr. Ruiz said, the agency — with \$235 million in assets — has been profitable from the third month, now contributing 20 percent of the bank's overall operating profits.

With more than 40 Latin American banks in New York, the trend seems certain to continue. Chilean law now permits its banks to set up overseas branches; many countries' banks are buying up U.S. banks as a way in. And like their counterparts on other continents, these expanding banks may find they can't go home again.

— PAMELA BAYLESS

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# in LATIN AMERICA

## Mexico Is Suffering From Growth Pains

By Cynthia Vice

ONE of Mexico's leading brokerage houses recently published a large advertisement in a major local newspaper with a soothing photograph of a waveless sea and the word "calm" printed above in bold, black type. The message was clear: The market has its ups and downs like the sea and it is vital to remain calm.

The ad was a blatant reminder to investors that Mexico's economic picture is not as cloudless as it was a year ago. Not only has the country been undergoing violent growing pains, along with its four-year oil bonanza, but in recent months it has also encountered problems selling oil, the precious black gold that has made Mexico the fastest growing nation in Latin America.

Part of the problem, since May, has been the slumping price of oil on the world market. But Mexico complained that problem. Petroles Mexicanos, the state oil monopoly, followed market trends at first by cutting \$4 off its price per barrel, but this stirred such a political flap that Pemex was quickly forced to backtrack and raise prices again by \$2 per barrel. The higher price cost Mexico many of its customers this summer, including the French Petroleum Co. The government threatened to cancel its joint industrial development programs with France in retaliation. "Such an outburst of nationalistic oil policy was frightening to some foreign investors here," said one European banker. "This was a bad precedent."

Mexico has since regained most of its export volume by dint of several important concessions and a deal to supply the U.S. government for its strategic oil stockpile. But its problems are not over. Pemex has had to recalculate its 1981 oil earnings by some \$5 billion less than the \$18-20 billion it had originally expected.

The economic tensions of the summer months have also left an indelible mark on international bankers. Many of them see Mexico's bargain-low spreads going up and its terms becoming shorter. "Mexico is not going to get better pricing than the current half percent over Libor," says one U.S. banker, "and perhaps spreads will increase slightly to three-fourths percent by year's end."

Angel Gurnia, who heads the Treasury Department's Foreign

Financing Office, has heard such talk before and gives it little attention. Bankers are always threatening to hike the spreads, he says, until they realize that "they've got strong competition because our economy is on solid ground."

Mr. Gurnia can marshal impressive evidence to back his claim. Mexico's economy is expected to grow a brisk 7 percent this year and more in 1982, because of tremendous private investment in industry, mining and construction. Over \$4 billion in investment is planned for the steel industry alone over the next four years, and even Chrysler is turning a nice profit and has recently completed a \$110 million engine factory.

More important is the fact that Mexico is the fourth largest oil-producing country in the world with proven reserves of 72 billion barrels. Production now stands at 2.4 million barrels per day and is expected to reach a maximum of 2.75 barrels per day.

Besides being a blessing, however, oil has also proven to be a cause for many problems. The incoming tide of oil money has raised Mexico's buying power and expectations so rapidly that the country's industry, agriculture, infrastructure and spending on social improvements can not keep up. Inflation has been racing along at 30 percent, creating pressures for the devaluation of the peso. Imports have swollen much faster than exports, and the country has become increasingly dependent on oil income for its balance of trade.

The lower-than-expected oil income this year has heightened these problems. Speculation against the peso grew so intense in July, because of the softened oil market, that President José López Portillo pledged to "fight like a dog" against major devaluation.

Beginning in 1980, authorities have followed a policy of incremental mini-devaluations, which amounted to a small 5 percent loss in the peso's value in 1980 and another 5.3 percent in the first half of 1981. The peso has been dropping a few cents almost every day this year, amounting to an expected total loss of 11-12 percent by the end of the year.

Outside analysts, however, are estimating that the devaluation should be as much as 50 percent to reach true parity with the dollar. The size of the gap poses the gap of a huge flight of capital into the dollar, which would force the gov-

## Miami a Latin Center

(Continued from Page 75)

by air. A \$750 million expansion of port cargo facilities is under way.

Miami knows Latin America's needs and is helping to satisfy them. A 1981 telecommunications equipment "expo" drew 2,500 Latinos, many of them ministers of communications or high-level military personnel, to view equipment of 112 multinational exhibitors eager to tap Latin America's top market — \$18 billion to \$20 billion of telecommunications equipment will be purchased by Latin countries in the '80s. Multinational-dollar contracts were signed, and two companies, E.M. Ericsson of Sweden and ATT International, decided to open Miami offices a month after the expo, joining more than 100 multinationals already in the area. About 200 exhibitors are signing on for next year's "expo." Other Miami expos are planned for electronics, avionics, agribusiness equipment, medical technology and food processing equipment, all major growth markets in Latin America.

"None of us have our eggs in one basket," says Stephen Sternfeld, executive director of Miami's International Center, representing 400 corporations engaged in Latin American trade. "We watch our portfolios carefully, not to be overexposed."

One factor that is meant to help Miami's international companies avoid risk and overexposure is an insurance exchange, now in its formative stages. Mr. Sternfeld predicts it will be "the next boom," drawing more than 100 international insurance firms during the decade to the Miami exchange for insurance and reinsurance of all kinds in the Latin American marketplace.

Whatever the risk, it only serves to heighten the air of excitement and movement in Miami these days. Gustavo Cisneros explains why. The head of a \$2 billion Venezuelan conglomerate with \$100 million invested in the United States which recently bought into the Florida National Banks of Fla., Inc. said, "Miami has a fantastic future as an international city, and may become another Hong Kong within 10 years."

— PAMELA BAYLESS

ernment to decree a devaluation. A large devaluation, if and when it comes, will be a blow to the banks. Some may be caught with large peso exposures, and others may face defaults or reschedulings as the government and private borrowers find that the dollar equivalent of their debt swells and places a heavier burden on repayment.

Meanwhile, the trade picture looks grim. Analysts estimate that 1981 imports will increase at least 50 percent this year (following a 55 percent increase in 1980), and the trade deficit will climb from \$3.3 billion to at least \$4 billion. Add to that the annual interest payments of \$6.5-7 billion on the foreign debt, and the current account deficit will probably reach more than \$10 billion by December 1981. Some analysts are projecting as high as \$13-14 billion, compared to \$6 billion in 1980.

As a result, international banks expect Mexico to need more loans this year than the \$5 billion it had originally foreseen. In July, when the oil shortfall became apparent, Mr. Gurnia said that the government would need an additional \$1.2 billion to cover the year. He planned to reduce the anticipatory borrowing for 1982 in order to

keep the 1981 total from increasing. The government also took steps to reduce its need for loans. A 4 percent budget cut was announced in July, equivalent to 3.7 billion, and steps were taken to reduce the flow of imports by increasing the list of commodities requiring import licenses and by raising tariffs.

Mr. Gurnia refuses to comment on just how much the government will actually need this year to cover the oil shortfall. The government is "experimenting" with austerity measures, he says, since it has never been in this situation before. Foreign banking experts say that borrowing for 1981 could reach \$8 billion, or \$3 billion more than scheduled.

Whether or not the government succeeds in controlling its borrowing, Mexico's debt has already reached uncomfortable levels. The public foreign debt at the end of 1980 was \$33.8 billion. The government projects that it will increase to \$38.8 billion by the end of the year, and financial analysts say that it could reach \$42 billion if the austerity measures fail. Taking into account the private sector foreign debt, expected to be \$15 billion at the end of 1981, the total will amount to \$54 billion or more.

## Argentina's Recession 'Subtle' but Deep

(Continued from Page 75)

reserves had fallen from about \$7 billion in January to less than \$5 billion. The devaluations have taken the lid off inflation, which is expected to be at least 150 percent this year.

At the same time, the financial shocks have also corrected the structural imbalances that Mr. Martinez de Hoz had created in the economy. The peso is now valued closer to true market parity, reducing import competition with Argentine-made goods. Interest rates, although still high, are neutral in comparison with the rate of inflation.

Argentine industrialists are not overly excited, however. These improvements are not enough to counterbalance over two years of accumulated bankruptcies, layoffs and mounting debt burdens. The usually inassailable Argentine consumer, if he does not find himself unemployed, has decided to put his money in the bank. Retail and industrial sales are in not doing well. An executive with an Argentine industrial conglomerate estimated that most industries are working at 60 percent of capacity, well below the break-even point.

### Uncertain Policy

To make matters worse, investors are discouraged from putting their money in Argentina by the uncertain course of future government policy. It is neither free-market, nor protectionist. Mr. Sigant has maintained sizeable import tariffs but refused to erect import barriers and prohibition. He will not condone subsidized interest rates, but he has created several financial mechanisms to help industries lengthen the terms of their debts.

As a U.S. banker explains, the government has yet to define exactly which industries are worth protecting and which should be left to outside competition. "They still do not know where they want to take this country," comments a Canadian banker.

### Upsetting

Meanwhile, the financial upheavals of the past six months have been upsetting to Argentina's international creditors. Foreign bankers were apparently among the last to acknowledge the weaknesses in Mr. Martinez de Hoz's strategy. Up to late 1980, Argentina was negotiating some of the lowest spreads in the continent

— one-half and five-eighths percent over Libor.

As soon as the rapid-fire series of devaluations made the country's economic problems all too obvious, its stock in international markets took a turn for the worse. Japanese banks pulled out of a previously planned \$30 billion bond issue, and a \$300 million syndicated loan for the state oil company was removed from the market.

### Interest and Debts

Argentina has since proven that it will have little or no difficulty in obtaining loans, as long as it is willing to pay higher rates. In a \$500 million seven-year syndicated loan, led by the Bank of America and scheduled for signing in early October, the Republic of Argentina offered to pay one and one-eighths percent over Libor. "That deal sold like bandits," says a U.S. banker.

The recession and peso devalu-

tions have also resulted in a slower growth of debt this year. After more than doubling from \$12 billion at end-1978 to about \$27 billion at end-1980, the total foreign debt is about \$30 billion this year, with roughly \$0 to 60 percent held by the government. The plentiful trade surplus means that Argentina is having no problems in meeting its debt service payments, about \$5 billion this year.

For the future, according to a leading Argentine industrialist, "The way out of the recession is through exports." Besides the peso devaluations, the government has set up a tax scheme and other incentives to promote manufactured exports. The response has been a marked increase in these exports in just a few months.

— JANE BAIRD

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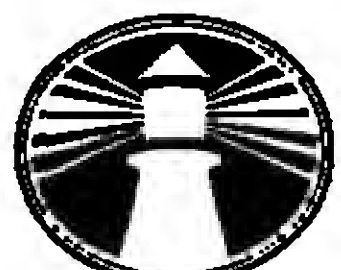


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## Arlabank: An Expanding Bridge to the Middle East

By Craig Justice

AFTER the quadrupling of OPEC oil prices in 1973-1974, many Arab countries began looking for new ways to invest their surplus revenues. Meanwhile, Latin American states were trying to entice more capital for their own development, especially those that were not oil exporters and had to spend increasing amounts for petroleum. Theoretically, it looked like a good match. But the Arabs were not familiar with that part of the world, while Latin America lacked Middle East contacts.

During the next three years, however, there emerged the idea of a Latin American-Arab bank to link the economies of the two regions. On Oct. 6, 1977, 27 major financial entities from 18 countries in the Middle East and Latin America founded the Arab Latin American Bank (Arlabank) in Lima with a subscribed capital of \$100 million. Within the last four years, Arlabank's assets have grown to more than \$1.6 billion, and it has recently doubled its subscribed capital to \$200 million (\$125 million is fully paid), of which 60 percent is held by the Arab shareholders and 40 percent by the Latin Americans.

Arlabank, an international merchant bank that offers project finance, syndicated loans and trade finance, functions primarily as a bridge channeling funds from the Arab world to Latin America. The bank's involvement in Latin America comes at an opportune time. U.S. banks are approaching their lending limits south of the border, while their Arab counterparts have a much greater capacity. Furthermore, according to Arlabank officials, Latin America offers attractive investments. "Latin America looks good — it's got basic resources. In Third World terms, it has a better potential than Africa," a bank representative said.

### Greater Impact

Although Arlabank is far from being the largest Arab bank operating in Latin America, it is well-prepared for a lead role in bringing the two regions closer together because of its excellent Middle East contacts and a staff with Latin American expertise. It is putting together an investment division that will give advice on specific projects in the energy, mineral and agricultural sectors, in addition to advising clients in corporate finance.

The bank, which led or co-led

nine syndications and managed or co-managed 16 from January, 1980, to June, 1981, totaling slightly more than \$4.476 billion, is beginning to have a greater impact on Latin American finance. Its portfolio is diverse, with loans used for a range of projects from building infrastructure to brewing beer. "We do not blackball any countries. We are receptive to any propositions," an Arlabank official said. Arlabank has also been active in Euromarkets, with loans to Yugoslav and Italian companies, and plans to enter the floating rate note market. Although Arlabank's involvement in Euromarkets will increase as the bank grows, its focus is, by definition, on Latin America.

Under Peruvian law, extraterritorial operations carried out by multinational banks are not subject to government control. Arlabank was the first offshore bank to operate in Latin America, and the only one to keep its headquarters there. It operates a full branch in Bahrain, and keeps in close communication with the Manama office via its own satellite. In addition to the offshore banking unit in Bahrain, Arlabank has representa-

tive offices in London, Rio de Janeiro and Bogota. Eventually, the bank plans to establish itself in other Latin American capitals, including Buenos Aires, Santiago, Caracas and Mexico City, and in New York.

Arlabank has taken great pains to adopt a conservative philosophy, and bank officials say that this is respected in the market. In 1979, operating profits were just over \$5.5 million, but this more than doubled last year to approximately \$11.3 million, or slightly less than 1 percent of total assets. During the first six months of 1981, Arlabank showed a net profit of roughly \$9.2 million, indicating continued high growth and increased profitability.

### Egyptian Trade

Abdulwahab A. al-Tammar, Arlabank's director and chief executive, has been the driving force behind the bank. Mr. al-Tammar is also chairman and managing director of the Kuwaiti Foreign Trading, Contracting and Investment Co., which is 80-percent state-owned and one of Arlabank's two biggest shareholders. The other is Arab In-

ternational Bank, which is based in Cairo.

AIB was established in 1972 to help finance Egyptian trade, with the governments of Egypt and Libya as the largest shareholders, along with Oman, Qatar, the United Arab Emirates and private Arab interests. In spite of the 1979 Baghdad Conference — held in response to the Egyptian-Israeli Camp David accords — which called on participating Arab countries and their establishments to stop granting loans, deposits and banking facilities to the Egyptian government and its establishments, the shareholders of Arlabank work cooperatively, according to bank officials. "Politics does not exist in the bank," an official said.

The other Arab shareholders of Arlabank are the Abu Dhabi Investment Authority, Arab Banking Corp. (Bahrain), Banque Intercontinentale Arabe (Paris), Libyan Arab Foreign Bank, National Commercial Bank (Jidda) and Riyad Bank Ltd.

Latin American shareholders are Banco Arabe Español, Banco Cafetero (Bogota), Banco de Bog-

otá, Banco de Colombia, Banco de Chile, Banco de Crédito del Perú, Banco del Estado (La Paz), Banco del Estado de Chile, Banco de la Nación (Lima), Banco de la República Oriental del Uruguay, Banco do Brasil, Banco Industrial (La Paz), Banco Nacional de Desarrollo (Buenos Aires), Banco Popular y de Desarrollo Comunal (San José, Costa Rica), Corporación de Fomento de la Producción (Santiago), Corporación Financiera Colombiana and Corporación Financiera Nacional (Quito).

Also holding shares are the Institut de Développement Agricole et Industriel (Port-au-Prince), European Arab Holding S.A. Luxembourg, and UBAF Group Holding (Panama).

According to the September, 1981, Middle East Economic Digest report on Latin America, development agency officials from Latin America say that the participation of Arab banks in their region has been relatively small, although their contribution to growth has been positive. Their participation — due in part to Arlabank — is certain to increase during the 1980s.

## Resources Attracting Investors to Region

(Continued from Page 75)

courage foreign investment in 12 large projects that are as yet unfinished. And Venezuela seeks investment for the aluminum sector, second only to oil in export earnings.

In Brazil, a priority is agriculture, a 10-percent growth sector, with soy, coffee, orange juice, cocoa and sugar traditionally the top exports. The newly cleared tropical forest in Carajás is expected to provide millions of acres of mineral-rich soil with great potential for agriculture and tree farms.

Jari, a bold agro-industrial experiment by U.S. investor Daniel K. Ludwig, has come upon hard times, and 30 percent of the project is up for sale. Mr. Ludwig invested nearly \$1 billion in the Brazilian jungle in the 1970s on 5,600 square miles he bought for \$3 million. The 120 million fast-growing trees he planted in hopes of producing vast amounts of paper pulp did not adapt to the soil, and rice harvests fell 30-percent below expectations. The world's largest herd of water buffalo — 6,000 animals — is being sold off or slaughtered.

There are construction possibilities all over the region, but nowhere greater than in the vast hydroelectric projects. Nearly every country with rivers to harness is increasingly turning to this source of electricity.

The most ambitious of these is Argentina's plan to spend \$15 billion by the year 2000 to build 27 hydroelectric power projects. The country hopes eventually to derive 73 percent of its domestic energy needs from these sources. Three of 10 ongoing projects are on stream, and an estimated \$11 billion in international loans and foreign capital will be needed for completion.

Currently, Argentina's biggest dam project is under construction on the Paraná River, constantly fed by melting snows from the Andes and the tropical rains of Brazil and Paraguay. Scheduled for start-up in 1986, Yacretá Binacional, a joint project between Argentina and Paraguay, will cost about \$7.2 billion. About 25 construction firms from 12 countries have bid on the 2,700-megawatt complex.

The biggest hydroelectric plant in the world is Itaipu, a 12,600-megawatt complex being built on the Paraná's Iguaçu Falls between Brazil and Paraguay. Itaipu, at a cost of nearly \$13 billion, is expected to

produce half of Brazil's generating capacity. At least \$1.5 billion is needed to complete the scheme. To date, most financing has been obtained through suppliers' credits, private and public Brazilian institutions, and Swiss and West German banks, whose companies are important equipment suppliers.

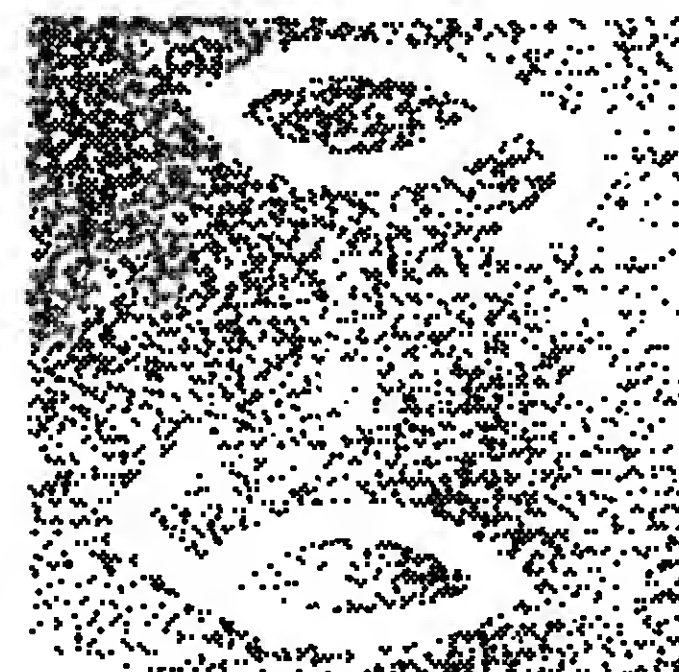
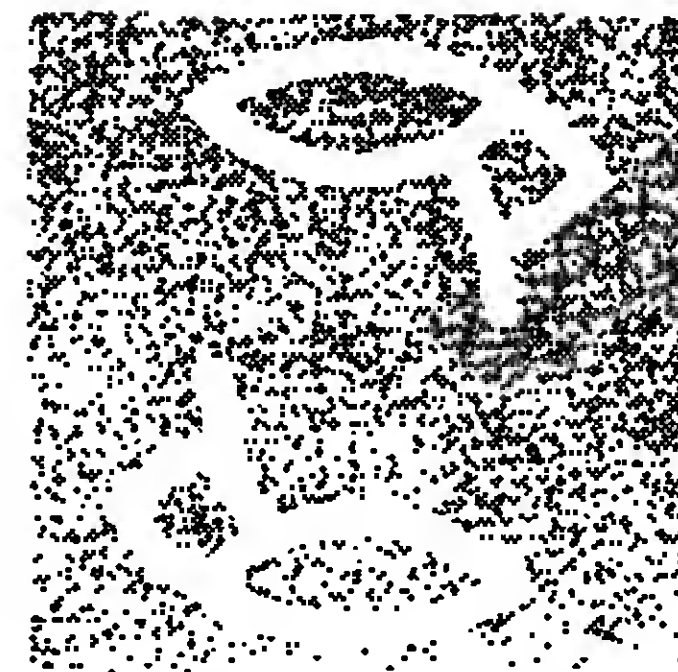
In the manufacturing sector, automakers are finding tremendous opportunities in Latin America, with the fastest-growing market in the world — 9 percent a year — for automobile and truck sales. Major European, North American and Japanese vehicle makers are scrambling to fill the need. Ford alone expects sales to at least triple by the year 2000, from 2 million to 6 million units a year.

Mexico is the darling of foreign investment in manufacturing, offering major opportunities in keeping with rapid industrial growth. About 77 percent of its anticipated \$3 billion in foreign investment this year is destined for manufacturing, and \$1 billion of that is expected in the automobile sector. Foreign investment has doubled yearly since 1979, when the government loosened restrictions on foreign firms, especially those promoting technological change and widening exports. The government especially wants more truck production. Even the financially troubled Chrysler Corp. is making money, with nearly \$30 million in 1980 profits in Mexico on more than \$1 billion in sales.

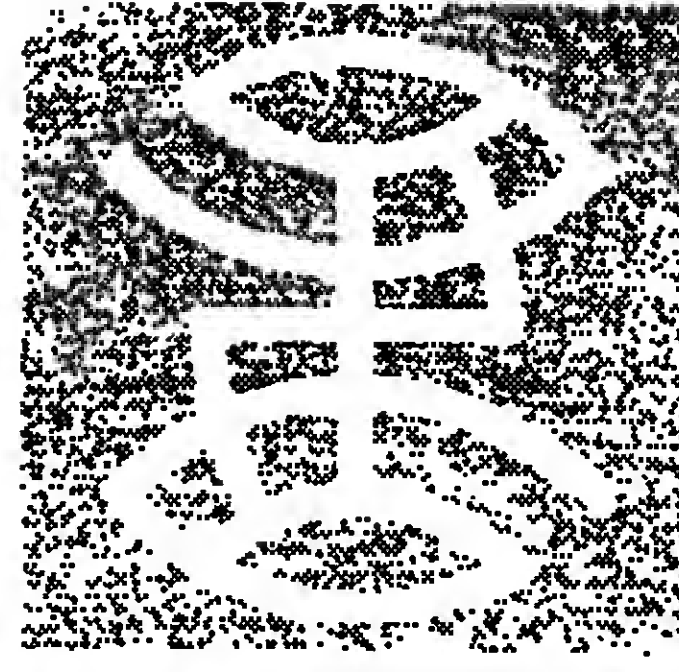
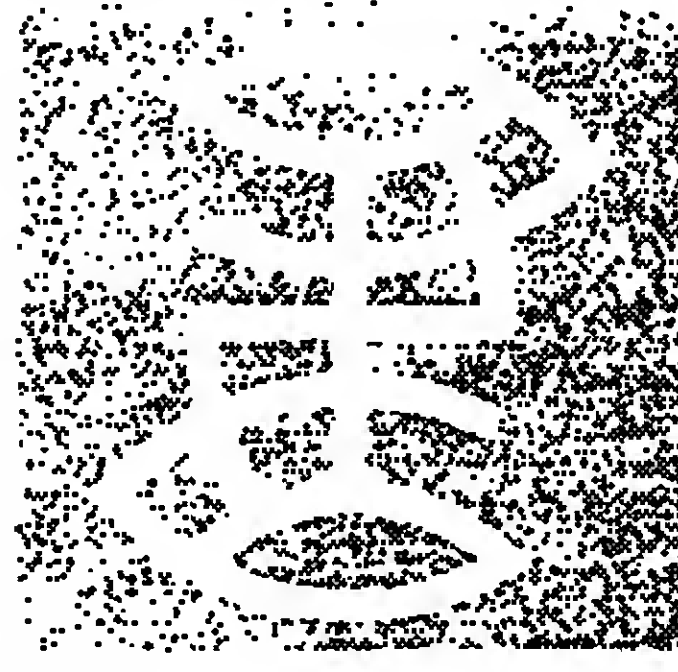
A severe shortage of capital and technology has led Mexico to offer special incentives to multinationals. "In-bond" processing plants, for export products only, may be 100-percent foreign-owned; others must observe the "Mexicanization" rule of 49-percent ownership through joint ventures. Other areas where foreign investment is welcome are high technology, jet engines, computers, petrochemicals, and transportation and port development.

In agriculture and forestry, Chile has put some of its rich and varied resources on offer to the highest bidder, as part of a market diversification away from mining. In Venezuela and Colombia, countries that do not eagerly seek foreign investors, agro-industrial programs are among the most welcome. Venezuela, which imports half its food, is hoping that foreign investment will reduce that dependency.

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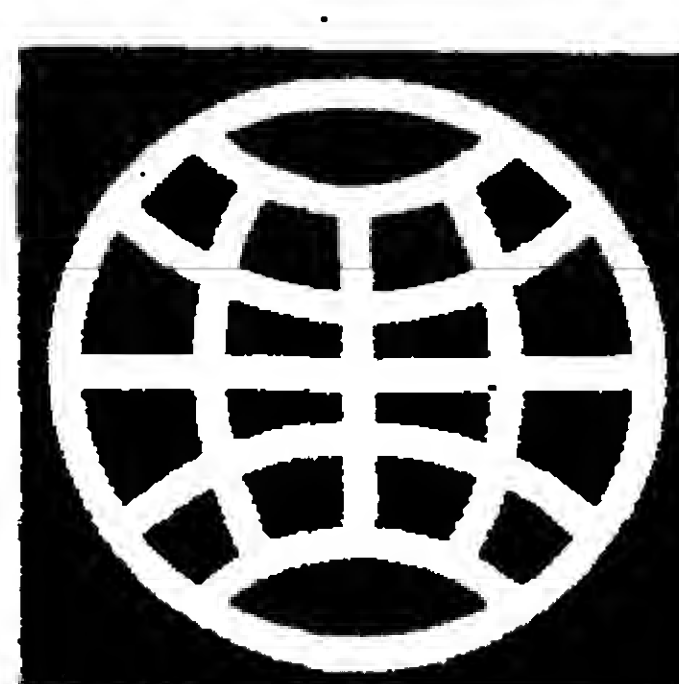


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## in LATIN AMERICA

### Brazil Attempts to Avoid Reckoning Day

(Continued from Page 75)  
minister, Antônio Delfim Netto, rose to the post of planning minister and has become Brazil's economic "czar."

One of his first acts was to try to control the rate of inflation by producing it—in essence, a type of supply-side economics. Acting on the belief that there was considerable excess capacity in some sectors, Mr. Delfim sought to stimulate production in these sectors in the expectation that the increased supply would cause prices to fall. The experiment was disastrous. Inflation rose from 40.8 percent in 1978 to 77.2 percent in 1979 and to the record level of 110.2 percent in 1980.

#### Signs of Discard

In late 1979, the first signs of discord between Brazil and its bankers appeared. The government negotiated a \$1.2-billion "jumbo" loan syndication at Libor plus 1/4 percent. At the time, spreads were beginning to rise, and the banking community asked Brazil instead to take down three sepa-

rate loans of \$400 million each, with the later loans paying higher spreads. Brazil insisted and, according to some bankers, promised that the country would return to the market in January or February of 1980 to compensate the banks for committing at the low 1/4 spreads. But Brazil did not go to the market until May. It was not surprising, therefore, to hear bankers saying in 1980 that Brazil should seek a standby loan from the International Monetary Fund rather than draw more funds from the private banking community.

This tactic yielded the expected results. Brazil's antipathy for International Monetary Fund-mandated economic belt tightening is well-known. The country acceded to bankers' demands for higher spreads and is now paying an incredible 2.25 percent over Libor (or 2 percent over the U.S. prime rate). On bank-to-bank loans, the business is even more attractive. In addition to the normal spread, Brazil pays a commission that ranges from 0.5 percent to 1 percent in cruzeiros (used to defray

local office expenses and tax receipts). The effective yield to foreign banks on such loans is reported to be on the order of 8 percent to 9 percent.

Therein lies the reason for continued bank financing to Brazil. When one considers that Poland, a centrally planned economy under the threat of Soviet intervention, has rescheduled its foreign debt at 1.75 percent over Libor, it is easy to see why a banker would be more anxious to lend to a country such as Brazil where market information flows relatively freely, there is no external threat to the country and the bank can earn an effective yield of 8 percent to 9 percent.

But both the banks and the country appear to have poorly estimated the world economy.

The strengthening of the U.S. dollar on world markets in 1981 has severely eroded the Eurodollar funding capacity of European and Japanese banks. U.S. banks have come perilously close to their lending limits for Brazil with three months remaining in the year. As a result, the remainder of 1981 and

most of 1982 may be a difficult period for Brazil and its bankers. Even with a yield curve so obviously attractive, the banks may not be able to continue funding as before.

There is an uneasy feeling in banking circles that the merry-go-round may be slowing. Many of the banks are in too deep, however. "Nobody wants to be the first to get off," a banker said.

Obviously, the final chapter of Brazil's balance-of-payments problems, particularly those stemming from debt service, is yet to be written. Brazil is currently much more sensitive to a change in foreign interest rates than it is to a change in petroleum prices.

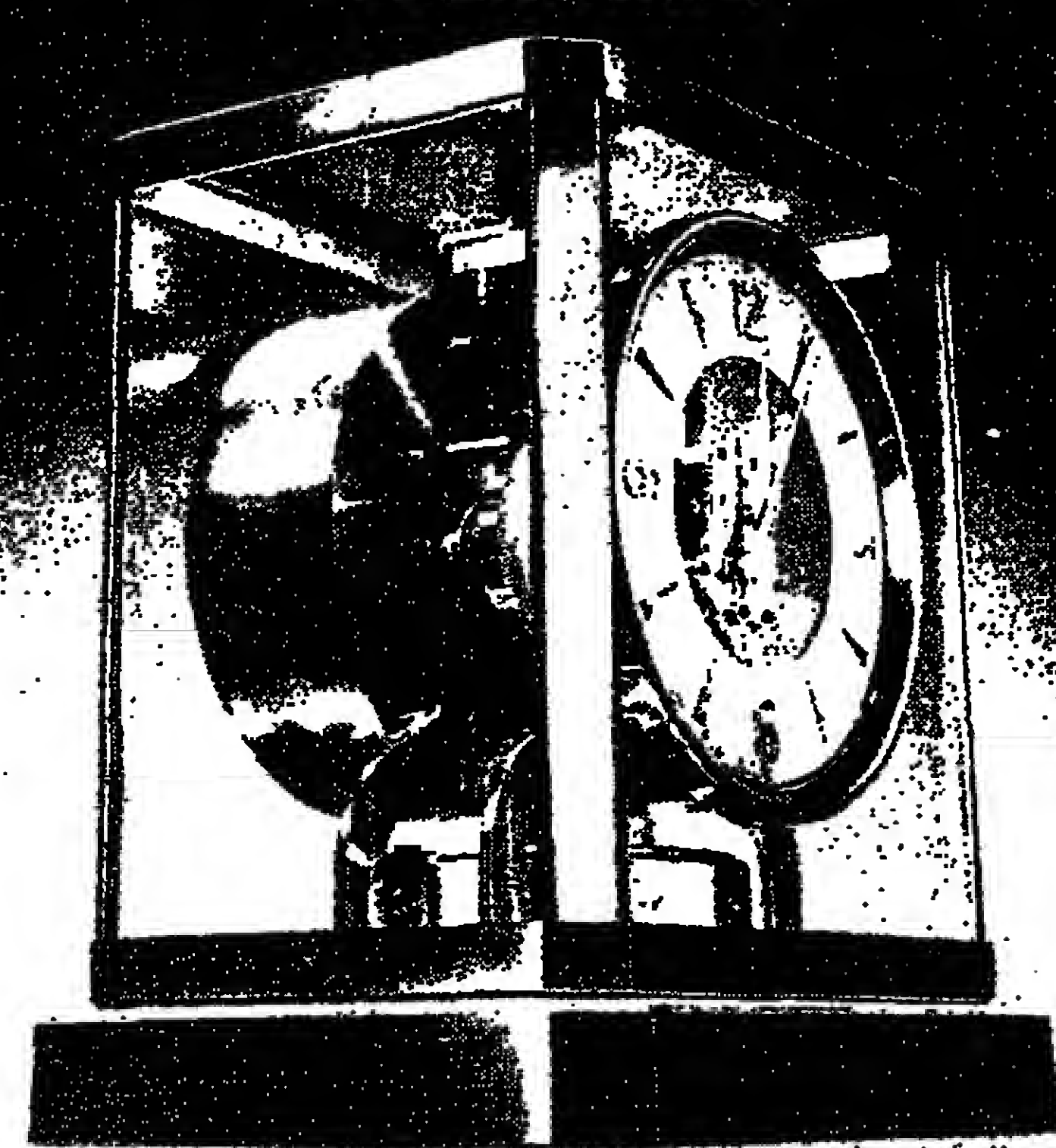
A 1-percentage-point increase in foreign money rates costs Brazil the cash flow equivalent of \$300 million. The same increase in petroleum prices generates a \$100-million expenditure. An international banker said, "Brazil missed a golden opportunity to consolidate its growth over the last 15 years, and we helped the country miss it by financing so heavily."

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## A TRAVES DEL TIEMPO... (TIME)



### Oil Thrusting Venezuela, Mexico Into Leading Roles

(Continued from Page 75)

about \$5 billion and its debt service is a low 15 percent of exports.

Since 1972, Ecuador's growth has been financed by higher oil prices and growing indebtedness, but that era is coming to an end. The drop in oil prices will mean a growing current account deficit and growing pressure to reduce the lavish government spending under the civilian government. Ecuador's aggressive borrowing is pushing up the foreign debt well over \$4 billion by the end of 1981. Debt service will be over 36 percent of export revenues.

Ecuador's most serious problem is the low level of oil exploration. The administration has submitted a long-awaited bill to modify the unfavorable terms of exploration contracts, but oil companies found the proposals disappointing. Even this bill may not be able to pass Congress.

The Bolivian economy is in a state of severe crisis caused primarily by a shortage of foreign exchange. Negotiations with the IMF for a two-year, \$220 million standby loan have been stalled for months, due in part to international condemnation of the military government for its role in cocaine trade. The government clamped down severe exchange controls in

early August, but the IMF is reportedly pressuring for a 30 percent devaluation of the peso. The government lacks the exchange to meet payments on the \$3.7 billion foreign debt.

Central America's foreign debt burden, not including Panama, was already a heavy \$7.5 billion at the end of 1980 and is climbing in all five countries. Costa Rica is struggling desperately to make ends meet until the February election brings in a new government. Even after receiving the first tranche of an IMF standby agree-

ment in July, Costa Rica could not obtain additional credit from the banks, which are waiting for the elections before committing more funds. Furthermore, recent decisions by the legislature and the Supreme Court have threatened the administration's ability to carry out the policies it promised the IMF, and the agreement appears doomed to fall apart.

In El Salvador, the fiscal deficit, and the need for loans, is growing rapidly. Only \$24 million in 1979, the deficit grew to \$198 million in 1980 and is projected at \$295 mil-

lion this year, as the government finances the war effort and injects money into an economy that shrank 10 percent in 1980. According to government data, however, the debt was still a low \$477 million at the end of 1980.

Political upheavals in Guatemala have caused a severe capital flight, which is depleting the country's usually high level of international reserves, down to an uncomfortable \$200 million or less by the end of 1981. The government is also increasing its spending, by 77 percent this year, and its borrowing to make up for lagging private investment. There is yet little concern, however, because the debt is low and the service is insignificant.

The Nicaraguan government will assume a growing role in the economy, as the private sector continues to withdraw, creating greater pressures on spending. The country is also suffering from a worsening trade deficit, estimated at \$400 million this year, because of low coffee prices and low output of other exports.

Although it has renegotiated its debt with the international banks, Nicaragua is depending on donations and low-interest multilateral and government-to-government loans to meet its day-to-day foreign exchange needs.

**JANE BAIRD** has most recently become an associate editor at Institutional Investor. She has previously worked for Business International and other publications.

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**JAMES WYLAND**, an economist, is a private consultant in Rio de Janeiro on corporate strategic planning, mergers and acquisitions, and international banking.

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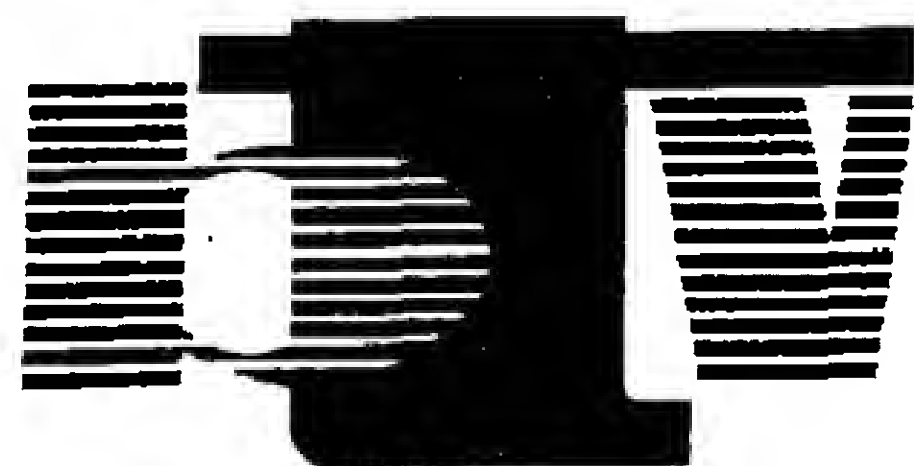
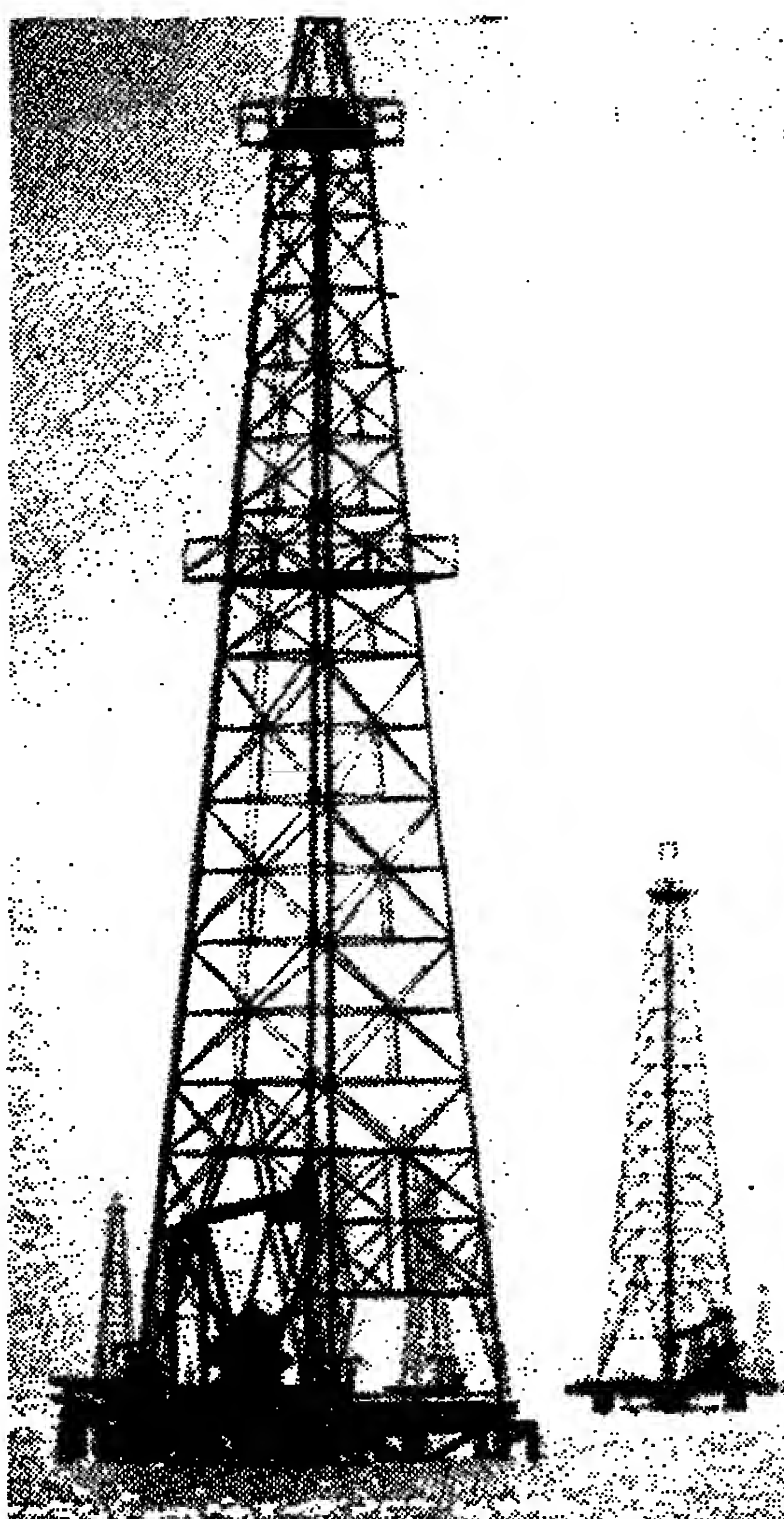
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## Delhi Agrees To Merger With CSR

**New York Times Service**  
NEW YORK — Delhi International Oil has agreed to merge with a subsidiary of CSR of Australia that is to offer \$78 a share for all of Delhi's common stock. The transaction, based on Delhi's 7.58 million common shares outstanding, would be worth \$591.2 million.

Delhi, one of the smaller oil companies based in Dallas, announced Wednesday that the offer is expected to begin by next Tuesday. The agreement also calls for a CSR subsidiary to buy 1.475 million authorized but unissued Delhi shares for \$78 each, or \$115 million.

Delhi, long considered a takeover target, has major exploration interests in Australia as well as modest oil and gas reserves in the United States. In 1980, the company earned \$4.8 million, or 62 cents a share, on sales of \$27.1 million.

Delhi's management put the offer up for sale last year. The company said in July that its plan to sell was on schedule and that it expected to receive proposals for acquisition by this month.

## Sedco Purchase

In April, 1980, Sedco, an offshore drilling company based in Dallas, announced that it had purchased 11.2 percent, or 846,000 shares, of Delhi's stock.

Investment bankers have said that it is difficult to assess the value of Delhi's 24 million acres of undeveloped land in Australia.

Last year, Delhi sold 22.4 million cubic feet of natural gas in Australia. It has reserves of about 752 billion cubic feet. Most of the gas is under long-term contract and is selling at about 70 cents per thousand cubic feet, a price that analysts consider low.

Delhi also owns 983,000 barrels of proven oil reserves in the United States and 14.9 billion cubic feet of natural gas.

In January, 1980, Delhi and other companies with interests in the Cooper Basin oil and gas fields notified the South Australian government that they could be ready to begin production of crude oil, gas condensate, butane and propane in early 1983. The government has since begun work on a pipeline and port facilities.

## Slide Continues On U.K. Markets

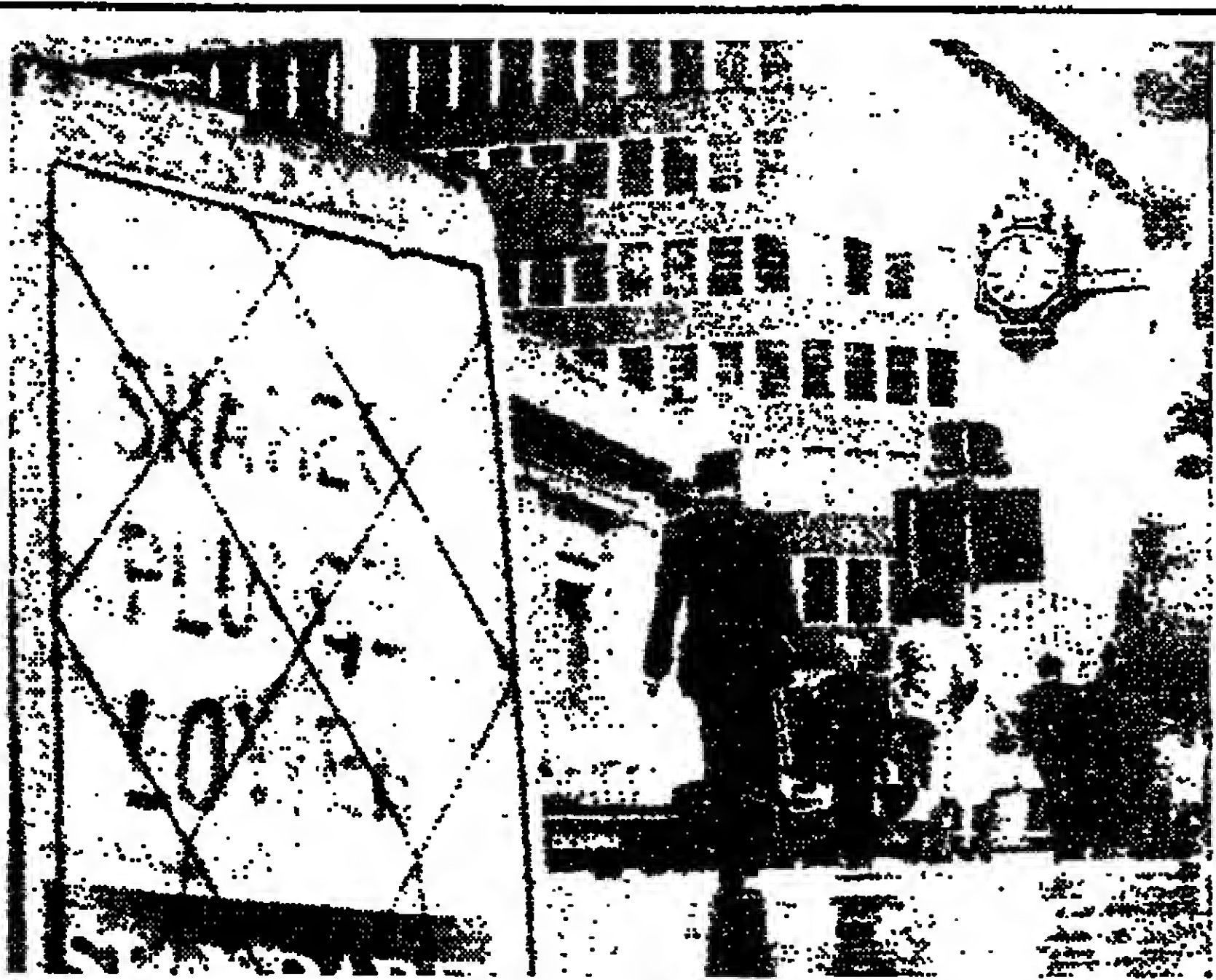
By Leonard Downie Jr.  
Washington Post Service

LONDON — Share prices continued to fall drastically Thursday on the London Stock Exchange, accelerating a steep two-week slide that analysts blame on deepening pessimism about the economic policies of both Prime Minister Margaret Thatcher's Conservative government and the Reagan administration.

Market analysts said the U.K. financial community was more skeptical than ever that Mrs. Thatcher's determination to stick to her monetarist economic strategy will hold down inflation, reduce the government budget deficit or bring Britain out of its worst recession in a half century.

Investors are similarly doubtful, according to the analysts, that the Reagan administration will succeed in reducing budget deficits, inflation or high U.S. interest rates, which have destabilized currency values and financial markets throughout the industrial world.

Prices slumped on stock exchanges in Europe, Asia and Australia Thursday after this (Continued on Page 15)



A headline outside London's Stock Exchange gives the bad news inside.

## GAO Criticizes Restructuring Plan for AT&T

United Press International

WASHINGTON — Serious flaws exist in government plans to deregulate the telecommunications industry by permitting American Telephone & Telegraph Co. to offer new services through a separate subsidiary, the General Accounting Office said Thursday.

The GAO, the investigative arm of Congress, studied a 1980 Federal Communications Commission decision to permit AT&T, the world's largest company, to reorganize in order to enter unregulated and lucrative fields such as data processing.

The Senate is expected to take up next week a complex bill to replace the FCC's deregulation order with a comprehensive telecommunications deregulation law. The House has held extensive hearings and hopes to produce its own bill by early November.

## National Semiconductor

United Press International

SANTA CLARA, Calif. — National Semiconductor said it will shut down its semiconductor operations at Greenock, Scotland, for four days in November and at its U.S. plants for three to four days due to continuing market softness.

The FCC decision, scheduled to take effect March 1, would break up AT&T so it could enter unregulated fields now closed to it. It also would deregulate the telephone equipment industry and would open interstate calls to more competition.

The new AT&T subsidiary is aimed at preventing the communications giant from using monopoly revenues from basic telephone service to subsidize its competitive activities.

But at issue is whether there are enough restraints to prevent the Bell System from subsidizing its newly independent company, dubbed "Baby Bell" — to keep down prices and eliminate competitors.

The GAO, which has been working on the study for two years, said it did not believe the FCC would be able to monitor relations between the parent company and the spinoff firm well enough to know if there was subsidization.

The FCC has failed to gather the data it needs to monitor the industry, has focused on establishing maximum profit margins for AT&T without scrutinizing the equipment costs and other expenses to which the profit margin

is applied, and failed after a 20-year struggle to develop an effective means of determining what it costs AT&T to provide specific services, the GAO said.

It also expressed reservations about allowing the parent and its fledgling firm to share research, development and manufacturing costs — provisions contained in both the FCC decision and the Senate bill.

The restructuring of AT&T, which accounts for 80 percent of the U.S. telecommunications in-

dustry, would by necessity force realignment of the entire industry.

Among the GAO's major findings is that contrary to the conclusions in the 1980 FCC decision, the telecommunications market is still dominated by one firm — AT&T.

The GAO is strongly critical of the FCC's ability to encourage and monitor the telecommunications industry's transition from a highly monopolized structure to a more competitive one, said a summary of the report.

marked down most notably immediately after the opening of the New York market, on some fairly heavy selling by U.S. operators.

Silver also was lower, closing in London at \$9.45 an ounce against \$9.95. In New York, silver futures fell the 50-cent limit in the morning with the key December contract breaking through the support level of \$10 to reach a four-week low of \$9.74.

## Speculators Sell

The strong dollar triggered silver

sales by speculators, and floor brokers said the market was practically empty of buying interest, with traders awaiting President Reagan's budget speech Thursday night.

Several other countries have criticized the FIRA's powers, and Britain's top diplomat in Ottawa, Lord Moran, said some British investors were wondering if Canada really wanted foreign investment.

Meanwhile, British Columbia and the Ottawa government signed an energy accord Thursday under which the province will remit withheld revenues to Ottawa in return for a zero-rated natural gas and gas pipeline tax, starting Oct. 1, through 1986.

## Davy to Complete Talks on Indian Steelworks Supply

Reuter

LONDON — The Davy Corp. has been selected by the Indian government to complete negotiations on behalf of a European group for the supply of a steel plant worth more than \$1.25 billion (about \$3.33 billion), Davy said Thursday.

The project, which will take four years to complete, is for the first stage of an integrated iron and steelmaking and rolling plant with an annual capacity of 1.3 million metric tons, to be built for the Steel Authority of India in the state of Orissa in eastern India.

Davy said its European partners in the project are CCEA Alstom of France and Götische-Hütte of West Germany, which together will take \$250 million to \$300 million of the contract. The balance will go to local companies, a Davy spokesman said.

Lazard Brothers is leading the project financing, with the Banque de Paris et des Pays-Bas and Commerzbank arranging the French and West German elements of the financing involved.

## Nissan to Raise Car Prices

Reuter

CARSON, Calif. — Nissan Motor U.S.A. will raise prices on its 1982 cars and trucks an average of \$375, or 4.6 percent. The distributor of the Datsun said Wednesday the higher prices reflect inflation, product improvements and the addition of a new mid-size car.

## CURRENCY RATES

Interbank exchange rates for Sept. 24, 1981, excluding bank service charges.

	\$	£	D.M.	F.F.	R.L.	Gld.	B.F.	S.F.	D.K.
Amsterdam	2.995	4.604	11.125	46.75	0.22	14.68	81.85	130.85	35.41
Banque de Paris	26.105	67.965	16.35	68.635	3.220	14.68	81.85	130.85	35.41
Frankfurt	2.322	4.148	10.935	43.75	0.22	14.68	81.85	130.85	35.41
London	1.782	3.195	8.195	32.75	0.22	14.68	81.85	130.85	35.41
N.Y.	1.0725	2.0505	5.047	21.25	0.08	14.68	81.85	130.85	35.41
Paris	1.782	3.195	8.195	32.75	0.22	14.68	81.85	130.85	35.41
Porto	1.551	2.825	7.125	28.35	0.22	14.68	81.85	130.85	35.41
Zurich	1.982	3.225	8.404	33.40	0.22	14.68	81.85	130.85	35.41
ECU	1.845	3.092	7.815	31.07	0.22	14.68	81.85	130.85	35.41

Dollar Values

	\$	£	D.M.	F.F.	R.L.	Gld.	B.F.	S.F.	D.K.
1.149	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
2.041	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.024	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.036	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.136	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.225	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.074	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
0.149	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075
1.575	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075

(a) Commercial franc. (b) Amounts needed to buy one pound. (c) Units of 100. (d) Units of 1,000.

## U.S. Inflation Slowed in August To Annual Rate of 10.6 Percent

The Associated Press

WASHINGTON — Rising housing costs moderated in August but still pushed inflation to a 10.6 percent annual rate, the government reported Thursday.

It was the second straight month of double-digit inflation after four months below the 10-percent level. The new report shows that inflation for the past 12 months — from August to August — was 10.9 percent. For the first eight months of this year, it ran at a 9.6 percent annual rate.

Although August's 1-percent increase in housing costs was the smallest in four months, the Labor Department report said the housing component of the Consumer Price Index still accounted for more than half of the overall August increase.

Housing prices shot up 1.6 percent in July and have ranged above the 1-percent mark each month since April, when it was 0.7 percent.

Private economist Sandra Shaber said the August report indicated inflation is "on a moderating trend in the long run." Ms. Shaber, senior economist with Chase Econometrics in Bala Cynwyd, Pa., predicted inflation for the year would run about 10 percent, compared with 12.4 percent in 1980.

Jerry Jordan, a member of the President's Council of Economic Advisers, also said the August report suggested inflation would come in under 10 percent this year.

"We think we are on course and that inflation will decline further by 1 or 2 percentage points in 1982," he told the congressional Joint Economic Committee. Thursday's Labor Department

report said smaller-than-recent increases in housing, transportation and food costs helped hold the August rise to a seasonally adjusted 0.8 percent, well below July's sharp rise of 1.2 percent.

That July rise translated to 15.2 percent on an annual basis — compared to the 10.6 percent annual increase reflected by the figures for August.

Inflation increased 0.7 percent in May and June and 0.4 percent in April, the smallest so far this year.

Inflation has been easing more this year than many economists had expected due to slower rises in food prices and declines in some

energy prices, brought on by the worldwide surplus of oil.

In a separate report, the Labor Department said real spendable earnings — after taxes and after adjusting for inflation — rose 0.4 percent in August, reversing three previous months of decline, for an average married wage earner with three dependents.

Real spendable earnings were down 2.7 percent from August 1980.

The unadjusted Consumer Price Index rose to 276.5 in August, which means that goods and services costing \$10 in 1967 could have cost \$27.65 last month.

## Concern Over Reagan Plan Sends NYSE Prices Lower

Reuter

NEW YORK — Investor uncertainty in advance of President Reagan's economic speech Thursday night caused prices on the New York Stock Exchange to close lower, analysts said.

The Dow Jones industrial average moved in a narrow range most of the day but started falling in late trading to finish off 5.80 at \$35.14. Declines led advances by \$30 to 600 and volume narrowed to some 49 million shares from 52.7 million Wednesday.

President Reagan was expected to announce further federal spending cuts in an attempt to hold down the size of the budget deficit. Analysts attributed the market's fluctuations throughout the day to conflicting reports about where President Reagan might try to reduce spending.

## Deficit Issue

However, Larry Wachtel of Bache Halsey Stuart Shields said doubts set in late in the session that there will be any dramatic budget cuts, and prices began to fall as a result.

Defense stocks lost ground following reports that President Reagan will propose closing tax loopholes for that industry. General Dynamics lost 1 1/4 to 22. Fairchild Industries 1 1/4 to 13. McDonnell Douglas 1 1/4 to 26. Litton 3/4 to 51 1/2 and TeleType 2 to 13 1/4.

Several of these firms will also be affected by the \$13 billion in military spending cuts over three years described by Defense Secretary Caspar Weinberger Wednesday.

Grumman fell 1 1/4 to 34 1/4. It gained over 9 points Wednesday after LTV offered \$45 a share for 70 percent of its stock.

Cities service gained 2 1/4 to 43 in active trading. The firm is buying back its shares owned by Nu-West for \$307 million.

Oil stocks were generally lower, with Exxon dropping 3/4 to 30 1/4 and Mobil 1/2 to 25 1/4.

## Mobil Weighs Sale Of 2 Canada Units

Reuter

NEW YORK — Mobil Oil Corp. said Thursday it is considering the sale of two recently acquired subsidiaries, Mobil-GC Canada Ltd. and Mobil-TO Canada Inc.

Mobil said the sale does not include any properties of Mobil Oil Canada Ltd., the company's principal subsidiary in Canada with interests in Western Canada and off the East Coast. The decision to consider selling companies was influenced in part by requirements of the Canadian Foreign Investment Review Act, Mobil said.

Mobil said Salomon Brothers has been retained to provide investment banking services for the proposed sale. Mobil-GC Canada, formed in 1979 to operate Canadian assets acquired by Mobil from International Paper Co., produces 1,400 barrels of oil and 10 million cubic feet of natural gas daily. Mobil-TO Canada Inc., formed in 1980 to operate assets bought from Esso, has minor producing interests and holds about 100,000 acres of oil and gas leases.

## BUSINESS NEWS BRIEFS

### Belgium Firm Making Offer for Tanks Investments

**Reuter**  
LONDON — Société Générale de Belgique said Thursday that it or a subsidiary will bid up to 450 pence a share for Tanks Consolidated Investments. The offer values Tanks' ordinary capital at \$77.3 million.

Belgium's largest investment holding company, which had net assets at book value of 9.47 billion Belgian francs (\$300.44 million) last Dec. 31, holds 29.96 percent of Tanks, or 5.1 million shares.

A spokesman for Société Générale's financial advisers, Lazard Frères & Co., later said that a further 21 percent of Tanks shares have been bought in the market, raising the Société Générale's stake to more than 50 percent.

### Sun Tentatively Agrees to Sell Texas Refinery

**Reuter**  
RADNOR, Pa. — Sun has tentatively agreed to sell its Corpus Christi, Texas, oil refinery and certain related assets to Koch Industries for \$265 million in cash, Sun said Thursday. It said the closing of the sale to the privately owned Koch is expected within 60 days.

Sun said the sale includes the 60,000-barrel-a-day refinery, the Corpus Christi petrochemical plant, an adjacent 500 acres (200 hectares) of land, the crude oil gathering system serving the refinery, and a fuels and petrochemicals terminal in Wilmington, N.C.

### Chris-Craft to Sell Boat Divisions to Murray

**United Press International**  
BRADENTON, Fla. — Chris-Craft Industries has reached agreement on the sale of its boat manufacturing divisions to Murray Industries of Delaware, Chris-Craft has announced. The company said Richard E. Geath will remain president and chief operating officer.

### Hudson Bay Mining Withdraws Francana Bid

**Reuter**  
TORONTO — Hudson Bay Mining & Smelting is withdrawing its offer to purchase the remaining shares of Francana Oil & Gas at \$32 a share because of unsettled market conditions, Hudson Bay announced Thursday. The company, which holds 58 percent of Francana, said negotiations were continuing on the possibility of acquiring the shares in connection with Francana's reorganization.

### Aquitaine of Canada's Board Backs CDC Bid

**Reuter**  
CALGARY, Alberta — Aquitaine of Canada's board of directors will recommend that minority shareholders accept the offer by CDC Petroleum to buy all the outstanding shares of Aquitaine that CDC does not already own, Aquitaine said Thursday.

CDC, which offered \$74 a share for Aquitaine on Sept. 11, bought a 74.8-percent interest in Aquitaine from Elf-Aquitaine of France for \$1.2 billion in July.

### AMC Offers Cash Rebates on Some 1982 Jeeps

**Reuter**  
SOUTHFIELD, Mich. — American Motors will pay cash rebates of \$500 on its 1982 "J" series of Jeep pickup trucks and \$750 on Jeep Cherokee and Wagoneer models, AMC said Thursday. It said the rebates will apply to vehicles purchased and delivered by Nov. 25. AMC is 46-percent owned by Renault of France.

### Kodak, Berkey Settle Suit

**From Agency Dispatches**  
NEW YORK — Eastman Kodak and Berkey Photo have settled an antitrust suit that Berkey filed against Kodak in January, 1973.

The two companies announced Wednesday that Kodak will pay \$4.75 million in cash and will provide a \$2-million credit to Berkey for the purchase of Kodak products. Barry Brett, a partner in the law firm representing Berkey, said the settlement was approved late Wednesday by U.S. District Court Judge Vincent L. Broderick.

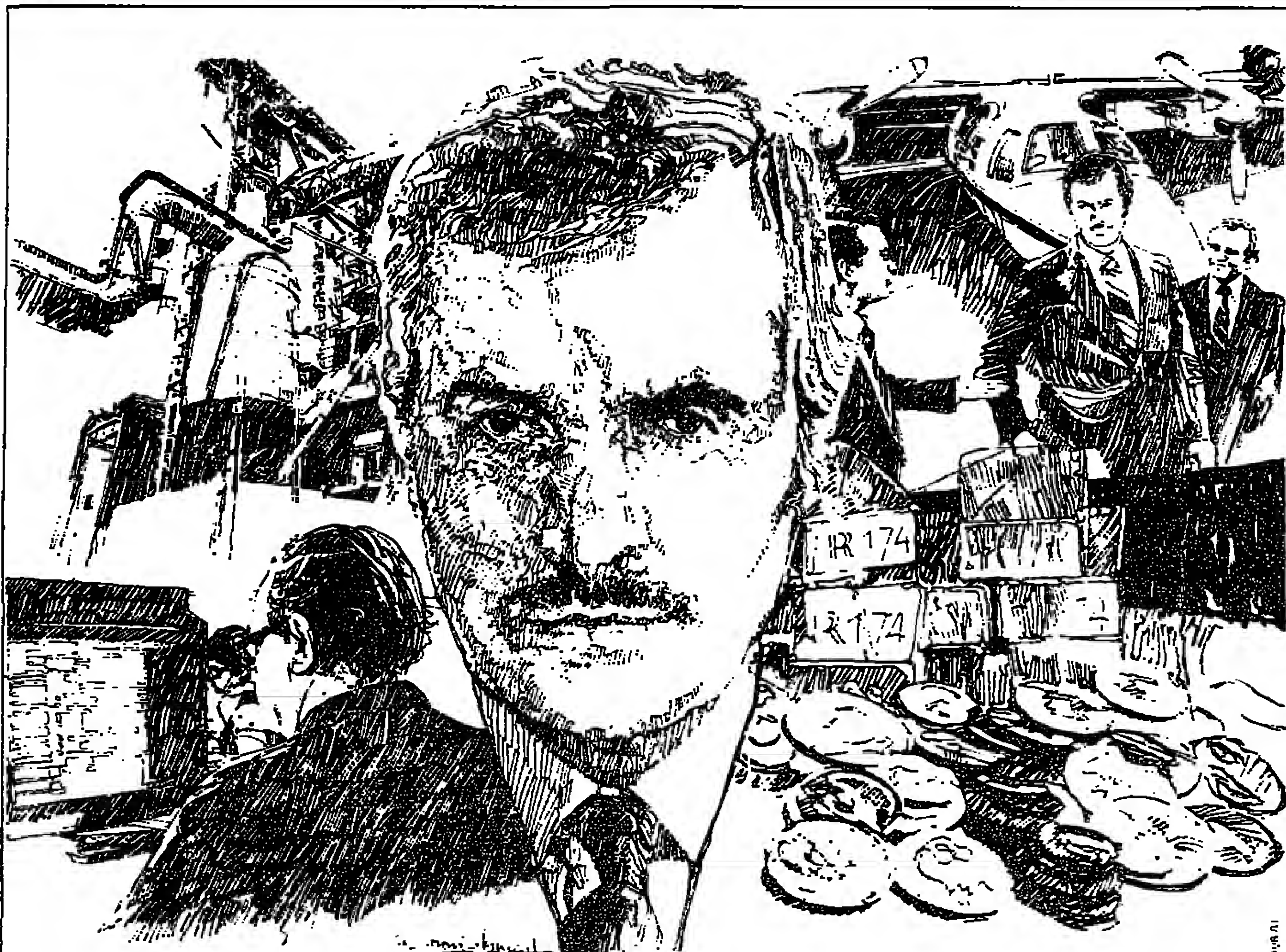
The settlement covers camera flash claims brought by Berkey under Section 1 of the Sherman Antitrust Act, the companies said. As part of the agreement, all other

claims were dropped without payment.

The settlement was substantially less than the \$12.8 million awarded Berkey by a federal court jury in January, 1978, after a nine-month trial on Berkey's claims that Kodak had used its technological dominance to restrict competition in the amateur photography business since 1969.

A District Court judge later cut that award to \$81.5 million plus \$3.6 million for lawyers' fees. An appellate panel then overturned the award and ordered a retrial, which had not taken place.

Berkey, which once marketed cameras but now concentrates on photo processing and the sale of photographic equipment, originally sought \$300 million in damages.



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All of the banks in TDB Holding Group concentrate on the things they

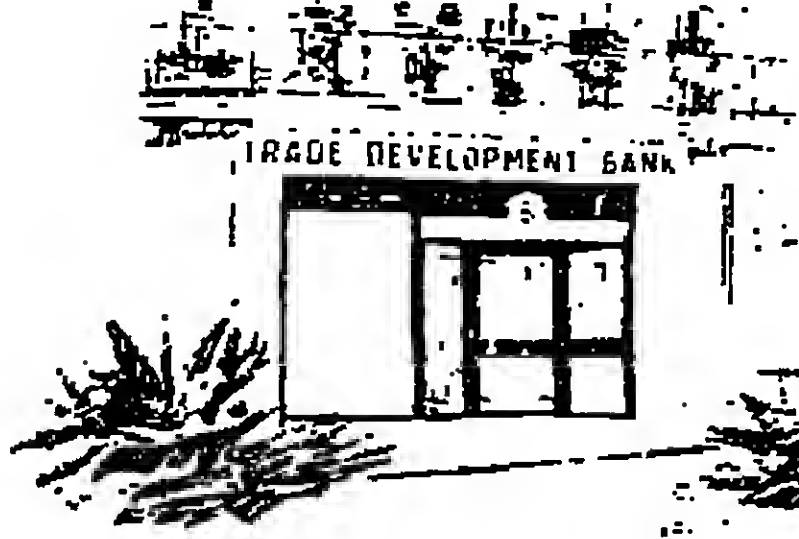
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TDB Holding Group: US\$100 million in assets, US\$500 million in capital and loans, funds employed, as of June 30, 1981.

Group banks: Austria, Belgium, Paris, Luxembourg, New York (Republic National Bank of New York), Athens, Buenos Aires, Calcutta, Hong Kong, Tokyo, London, Manila, Mexico, Milan, Rome, Singapore, Stockholm, Zurich, Geneva, Frankfurt, London, Rio de Janeiro, Sao Paulo, Tokyo.



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Tables include the nationwide prices up to the closing on Wall Street.

**International Herald Tribune**  
We've got news for you.







—By Eugene T. Maleska



	HIGH			LOW			TYPH			LOW		
	C	F	F	C	F	F	C	F	F	C	F	F
ALBANY	29	71	59	Fair	MADRID	21	79	6	43	Fair		
ALBUQUERQUE	31	69	56	Cloudy	MALTA	27	73	7	50	Foggy		
AMSTERDAM	29	71	60	Fair	MOSCOW CITY	27	61	14	67	Cloudy		
ANTWERP	34	66	54	Fair	MIAMI	28	68	25	77	Stormy		
ATHENS	30	70	59	Fair	MILWAUKEE	24	74	14	64	Fair		
AUCKLAND	19	80	6	Fair	MONTREAL	11	82	8	64	Rain		
BANKOK	25	75	62	Cloudy	MOSCOW	15	89	14	67	Overcast		
BEIRUT	24	76	61	Cloudy	MOSCOW	23	63	14	63	Cloudy		
BERLIN	21	79	67	Cloudy	NAGASAKI	18	82	11	62	Cloudy		
BELGRADE	24	76	65	Fair	NAGASAKI	21	78	19	65	Cloudy		
BOMBAY	29	71	59	Fair	NEW DELHI	27	67	27	66	Cloudy		
BOSTON	18	81	9	Fair	NEW YORK	17	83	10	60	Cloudy		
BRUSSELS	16	84	9	Fair	NICE	23	73	19	64	Cloudy		
BUEENOS AIRES	25	75	62	Fair	NICE	5	91	14	64	Cloudy		
BUDAPEST	30	69	54	Fair	PARIS	20	68	8	44	Cloudy		
BUEENOS AIRES	25	75	62	Fair	PEKING	23	73	16	61	Fair		
CAIRO	22	78	65	Cloudy	PIRABUE	24	74	16	64	Fair		
CASABLANCA	23	77	65	Fair	RIO DE JANEIRO	27	61	21	70	Foggy		
CHICAGO	24	76	60	Cloudy	ROME	26	79	22	72	Foggy		
COLUMBIA	29	71	59	Fair	SAN FRANCISCO	27	71	17	52	Cloudy		
COSTA DEL SOL	25	75	65	Foggy	SAN PAOLO	21	79	11	61	Rain		
DAMASCUS	34	66	51	Fair	SEATTLE	22	72	21	70	Rain		
DARWIN	21	79	61	Cloudy	SEATTLE	22	72	21	72	Rain		
EDINBURGH	14	81	10	Cloudy	SINGAPORE	12	87	2	51	Stormy		
FLORENCE	20	80	69	Stormy	STOCKHOLM	16	81	10	50	Overcast		
HAMBURG	21	79	61	Foggy	STOCKHOLM	16	81	10	50	Overcast		
HANKOW	15	85	9	Rain	TAIPEI	21	78	12	54	Fair		
HELSINKI	13	85	9	Showers	TOKYO	25	73	15	60	Foggy		
HONG KONG	24	76	64	Cloudy	TOKYO	21	78	15	59	Foggy		
HOUSTON	32	68	54	Cloudy	TUNIS	21	78	19	64	Cloudy		
ITALY	24	76	64	Fair	VERONA	20	68	18	54	Overcast		
JERUSALEM	24	76	64	Fair	VERONA	19	78	12	54	Fair		
LAS PALMAS	14	74	20	Fair	WARSAW	24	74	14	64	Cloudy		
LONDON	19	81	6	Overcast	WASHINGTON	20	79	9	48	Fair		
LONDON	22	78	13	Rain	ZURICH	14	87	10	50	Foggy		
LOS ANGELES	25	75	64	Cloudy								

[illegible]

THIS IS MY REPORT  
ON THE PAST

THE PAST HAS ALWAYS  
INTERESTED PEOPLE

I MUST ADMIT,  
HOWEVER, THAT I DON'T  
KNOW MUCH ABOUT IT

9-25

I WASN'T HERE  
WHEN IT HAPPENED

GIVE ME A 'MARGUERITA'  
AND SHAKE IT GOOD!

YOU WANT THE  
STANDARD OR  
THE DELUXE?

WHAT'S THE  
DELUXE?

I STRAP IT TO MY LEG AND  
DO 5 MINUTES OF JOSE GRECO

WILEY'S BAR

WILEY'S BAR

© Field Enterprises, Inc. 1981

MR. BURNS: YOU BELIEVE IN DREAMS?

KRUSTY: YES, I BELIEVE IN DREAMS!

MR. BURNS: BECAUSE LAST NIGHT I DREAMT YOU WERE GOING TO GIVE ME A RAISE

KRUSTY: IT'S RAISES I DON'T BELIEVE IN

KRUSTY: THIS ISN'T MY IDEA OF A BIVOUC SITE!

MAN: DON'T BLAME ME, SIR

KRUSTY: WELL, WHO CHOSE IT?

BURGERS

HOMER WORKS

q-25

q-25

q-25

q-25

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OH, ALL RIGHT THEN, ANDY, I CAN'T AFFORD IT, BUT I SEEM AS IF IT'S YOU.

THANKS CHALKE.

DON'T YOU THINK IT'S A BIT CONTEMPTIBLE - TAKING ADVANTAGE OF THE WEALTHY ART CHARACTERS?

BUT THEM'S THE ONLY ONES I'M SUCCESSFUL WITH.

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THE KING WILL NOW OPEN BIDDING FOR ID'S OFFSHORE DRILLING RIGHTS

OFFSHORE?

ANYTHING ON THE OTHER SIDE OF THE MOAT

9-16

YOU'RE OFF FROM WORK SATURDAY, MOM! WHAT'RE YOU GOING TO DO IF I GO TO THE FOOTBALL GAME WITH DR. CAVELL?

DON'T WORRY ABOUT ME, SON!

I HAVE A LOT OF THINGS TO CATCH UP ON--SEWING--SHOPPING--

MRS. DANE? THIS IS KEITH CAVELL. I CHECKED ON THOSE FOOTBALL TICKETS! THE GAME STARTS AT ONE O'CLOCK INSTEAD OF TWO! I'D BETTER PICK KENNY UP AT ELEVEN!

1961 BY TELEVISION FILMS, INC.

MR. CLEVER, I'M SURE MANY PEOPLE ARE WONDERING RIGHT NOW: THERE ISN'T SOME LESS RACIAL WAY OF CONTROLLING THE SPREAD OF PREPPIES THAN AERIAL SPRAYING.

FOR INSTANCE, HAVE YOU CONSIDERED DISRUPTING THE REPRODUCTIVE CYCLE OF ADULT PREPPIES?

YES, BUT THE PROBLEM THERE IS THAT PREPPIES MATE SO RARELY, AND THEN ONLY ON THE ADVICE OF THEIR FAMILY ATTORNEYS.

HOW ABOUT CROSS-BREEDING THEM WITH HIGH SCHOOL GRADUATES? WELL, WE'RE TRYING TO REVERSE THAT KIND OF SLOTH ENGINEERING.

G.B. BAKER

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

**MELIP**  
 □ □ □ □ □ □ □ □ □ □

**ALVAN**  
 □ □ □ □ □ □ □ □ □ □

**ANIZIN**  
 □ □ □ □ □ □ □ □ □ □

**SMURTI**  
 □ □ □ □ □ □ □ □ □ □

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

The cartoon depicts a scene in a room. Two men are present. One man, wearing a striped shirt and pants, is sitting on the floor, looking down at a book. He has a speech bubble that says "WHAT THE MUSICIANS SAID THAT AWFUL HOTEL WAS." The other man, wearing a striped shirt and pants, is standing behind him, looking at a book. He has a speech bubble that says "Yuch!". The room has a sign that says "ROOMS" on the wall. The man sitting on the floor is holding a book that says "THE MUSICIANS SAID THAT AWFUL HOTEL WAS." The man standing behind him is holding a book that says "Yuch!".

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*Kathleen*  
9.25

"PSST... DON'T LET HER TALK TO YOUR PLANTS,  
MR. WILSON. SHE'LL PUT 'EM TO *SLEEP!*"

## ONLINE

By Dave Smith. 262 pp. \$12.95.  
Louisiana State University Press, Baton Rouge 70803.  
Reviewed by Robert Wilson

Reviewed by Robert Wilson

**A**T 6 feet 10 inches and nearly 300 pounds, Billy Luke Thompson, the protagonist in *Big Bad*, Dave Smith's first novel, is like a father figure to his son, a big man. Like his father before him, Billy Luke intends to join the Coast Guard. But unlike Big Jack Thompson, who died trying to rescue a boatload of girls off Kitty Hawk, N.C., Billy Luke has a knack for survival. Perhaps it is his innocence that protects him from the many dangers he encounters in this novel. He survives not by his brawn but by his unwittingness—just as a baby can fall many stories from an apartment building window and live.

Billy Luke avoids his father's fate the day he sets off for the Coast Guard recruiter in Wilmington and ends up in the Coast Guard cutter *Waukegan* in Raleigh. When as obliging fellow recruits point out his mistake ("Jesus, you ain't no big as a friggin' elephant but also is as dumb. Boy they raise some dumb S- in the South. You are in the U.S. of A's Army, friend."), Billy Luke sends him home on medical discharge and lands himself in a disciplinary unit ("Man, I shouldn't trust his fellow man like you done"). There he is assigned to a sergeant who doubles as the post track coach, a man of rare vision who realizes immediately that Billy Luke's calling is as a short putter, and that is the role in which Billy Luke plays out

Upon his discharge, Billy Luke, hitchhiking he does not know where, gets a ride with a man of even rarer vision, Tom Zucold, who in the long run will change Billy Luke's life, and within moments changes his name: "That is some mother handshake you got there, sport," Tom Zucold said.

"Name not there," he answered.

"Bet me it ain't. Didn't think it was," Tom Zucold said. . . . Name was, he, The Gator."

Tom Zucold takes The Grip home with him to Chapel, Va. (a semi-fictional place occupying the same geographical space in the Virginia Tidewater as the town of Poquoson), where Tom Zucold runs the Bowie Garage, routinely sticking what customers come his way. The Grip accepts a job as apprentice mechanic and unhydraulic lift, and is paid in Gatorade, fish and grits, and a piece of Tom Zucold's dream of salvation and a lot of goodness.

I've barely made a dent in the plot, but it is early in "Onliness" that Smith and his characters are most appealing. The profane, mindless, saw-tooth patter of *The Grip* and *Tom Zucold* is delightful, especially in its gentle parody of a way of speaking that actually exists, and that is itself parodic and full of humor.

In choosing characters who are not particularly articulate, Smith has created a problem for himself: how to make their speech and thought both interesting and plausible. His solution is clever, I think: their language is rich in the metaphor of what they know best, the automobile. When a whorehouse on wheels shows up at the Bowie Garage to get her pleasure bus fixed, The Gimp thinks of her like this: "[Her] hair was black and her eyes were almost Pontiac Grand Prix Almond, but not exactly. Her skin wasn't exactly Cadillac Ermine either. And those

lips, well, the paint manuals just did not have a color like that. As she circled him, he thought *mohair*. He wasn't sure what *mohair* was but Tom Zuicold told him that fine Cadillacs used to have it for seats. . . . The woman was the closest thing to *mohair* that The Grip could imagine."

But an even better woman comes

**Solution to Previous Puzzle**

CHAD	METUP	FLEW
HARI	OMANI	LOLA
INEZ	TOPAZ	ICKY
GAZETTE	ZANIER	
JOLE	BERG	
CHANGE	AURA	MOD
HALEY	STRIP	MINE
FRIS	POTAGE	ERAIL
PRESSURES	OF	
SYN	ERRA	WIZARD
HAZY	TINA	
SQUALL	TOPKNOT	
PULL	LOVE	IDYL
EINE	NADER	NOPE
CZAR	GROSS	EROS

along, the daughter of one of Chapel's first families. Christened Promise Muddleman, divorced from Butch Land, she stops by the Bowie Garage one day and offers The Grip a ride on her pink Harley Davidson, which, he soon learns, she likes to drive at better than 100 mph. His first time out with a woman and he almost makes it to the promised land, but he is not to make it with Promise Land until their next date.

Some of us cannot get enough of this sort of low humor, but it is not long before Dave Smith, whose 10th book of poetry is also being published this month, and whose reputation as a poet is good and getting better, moves on to a new level. *From Zulu to Beach* is not just your average crooked garage-man; he is a man with a plan. The Carolina Kid, an aging, itinerant hustler at pool, is expected to make an appearance at the Carolina Beach Poetry Festival, and from Zulu Smith has his every cent on him. His faith in the Carolina Kid is blind and perverted, and when he tells The Grip that the CK has "been known to carpenter with a ship's mast" it turns out suddenly a "little" of the Christian allegory begins to get in the way to a perfectly good story. You could try to ignore it, as I did, but when at book's end The Grip is back on the road with a "little" of the "Carolina Kid" syndrome; tell me what that signifies), it gets pretty difficult.

### Paranoid Fantasy

The first half of "Onliness" is spent in expectation of the Carolina Kid, but his coming turns out to be a disaster. Tom Zuold and The Grip lose their money and are lucky not to lose their lives, victims of the CK and the whore on wheels. In the second half of the novel, Tom Zuold, his faithful gonorrhea, and the Grip are involved in an overlong paranoid fantasy. He fortifies the Bowie Garage against the Committee (actually the Chapel Garden Club, chaired by Promise Land), which he thinks is out to get him and his property. The Grip becomes a soldier again, this time in the army. The novel is joined at arms by a black state trooper (there's a fanciful detail, for the Virginia of a decade ago) named Trooper Drilling, a marvelous, farcical character who cultivates the book's final chapter.

Any comic writing about the South must submit to comparison with the blessed trinity of modern southern fiction writers: Faulkner, Flannery O'Connor and Eudora Welty. Smith can't hold his own in the company, of course (who can?), but his intentions are as literary as theirs. The problem is that "Onliness" does not hold together as a novel; its pieces just don't fit as they ought to. Nonetheless, many of those pieces shine with Dave Smith's cleverness and sparkle with his humor, and I won't soon forget the hours I've spent at Bowie Garage.

Robert Wilson is an assistant editor of *The Washington Post's Book World*.

## D'Oyly Carte Gets A Financial Boost With Tour of U.S.

*The Associated Press*

**LONDON.** The D'Oyly Carte Opera Company, which has performed Gilbert and Sullivan operettas for more than a century and is now facing a financial crisis, has been awarded a lucrative tour of the U.S. East Coast. It was the second boost to the company's future this month.

The tour, arranged by the Seaboard Coast Line in New York, is to follow the company's winter season at the Adelphi Theater here.

Peter Riley, the company's deputy general manager, said Wednesday: "The Adelphi season looked like being a make-or-break situation for us. But the American tour gives us a further financial opening."

The group's financial crisis erupted when Britain's State Arts Council rejected a recommendation to provide the company with financing of £50,000 (about \$91,500) a year. Earliest this month, the D'Oyly Carte received a £100,000 check from a British-based group.

*By Alan Truscott*

**W**HEN a player picks up the hand of a lifetime, which is usually a mass of high cards with a probable slam in view at the start, he can expect the bidding and play to be relatively straightforward. The chances are that his partner's hand will have little relevance in the bidding and the play.

The opening bid of two clubs was strong and artificial. North doubled the overall of two spades to indicate a hand that was suitable for defense but would be useless in another contract.

But at this vulnerability, South was

. NORTH  
♦ A9862  
♥ 752  
♦ 742  
.

WEST EAST

♠ KJ7543		♠ Q10
♥ 86		♥ Q1094
♦ 863		♦ 1095
♣ 189		♣ 8763

♣108 ♠8763

SOUTH (D)

♠—

♥AKJ3

♦AKQJ

♣AKQJ5

North and South were vulnerable.  
The bidding:

South	West	North	East
2♣	2♣	DBL	Pass
3♣	Pass	3NT	Pass

3♣	Pass	3N.1.	Pass
4♦	Pass	5♣	Pass
6♣	Pass	Pass	Pass

West led the club ten.

not willing to settle for a penalty. He expected to bring home a vulnerable slam, and he persevered with forcing bids to land in six clubs.

Clearly South has 12 tricks, but equally clearly one of them, the spade ace, will wither on the vine unless the defenders oblige South by leading spades.

West did not oblige. He led a trump, and when South won, he had an interesting planning problem. The simple way was to draw trumps and lead hearts from the top, hoping that the queen would fall or that the suit would split evenly.

But there was a much better play, and South found it. He drew trumps, cashed all his diamond winners and played the heart ace. Then he led a low heart.

This offered a number of chances. The slam would be safe if the queen appeared, or if West won the trick, or if East began with five hearts or two hearts.

As it happened, East was able to win with the heart nine and lead the men. This was the only way to give South a problem, but he was able to solve it. West was known to have been with East and the

With a five-card spade suit, West

might have chosen to pass. But with a six-card suit, his action was clear. South played West for an original holding of six spades and finessed the



## Coming: The Worldly Mile

way to run a race that has never been held before.

"Nobody's ever run a mile like this on a city street," he said later. "I couldn't compare it to the two Olympic Games I was in, where it's the culmination of four years of training. It's really like a carnival. But it could be a great race."

"I think it's possible to run as fast on Fifth Avenue as on a quarter-mile track. It is very difficult to judge distances on a point-to-point race. On a track, you start fast, you pace yourself, you sprint at the end. But on a point-to-point race, you start fast, you sprint to end."

—MARTIN FRIEDBERG, to end

With all the boys running here Saturday, you could have quite a sprint. It's deceptive. Anyone could win it. We could run at a 3:50-3:55 pace."

minute mile. Coghlan's steps covered manhole covers, slick with oil and water, slight depressions, pebbles and grit. And she used it all

*The Associated Press*  
Eamonn Coghlan contributing to congestion on Fifth Avenue.

# Olympic Panel Seeks Op

*The Associated Press*  
BADEN-BADEN, West Germany — Talks that could lead to professional and amateur athletes competing in the Olympic Games are under way at the 11th Olympic Congress.

While speakers from the International Olympic Committee, the national Olympic committees and the international sports federations deliver speeches about the problems of the Games, IOC members are studying proposals for open Olympics.

A plan prepared by the IOC's Eligibility Commission keeps the door closed on money prizes in the Games. It proposes that all athletes, whether professional or ama-

teers, must be amateurs. "If openly declared, the athlete has every right to receive it."

The report asserts that present-day athletes are not amateurs and at the same time are not true professionals. "They are simply paid athletes," it says.

In an effort to reconcile this situation with the old Olympic ideals, the commission recommended the adoption of two policies: total unselfishness by athletes, and an absolute ban on commercial interference in the Olympics.

Daume's commission proposed that participation in the Olympics be open, without any form of discrimination. But the athlete would compete for medals only.

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Lord Killanin, the former president of the International Olympic Committee, also was a participant in the President Carter day. Recalling the problems at his tenure, Killanin denounced U.S.-led boycott of the M Games last year.

"Little did we realize this Olympic movement and the pic competitors were to be ficed by the ill-advised, pared action of the president the United States of America endeavored to sabotage the pic games in Moscow — the pic games, the property of here and not that of the Sovietion," Killanin told the congress glad to say this failed,

He began in front of the Metropolitan Museum of Art, with colored banners advertising the shows within. The Empire State Building jutted into the southward sky, and the windows of lush apartment houses glinted with teases of afternoon sun.

Coghlan said he was not thinking of the power and the glory of this awesome mile. He was watching the buses and the pavement. As he raced downtown, Central Park on his right, the Frick Museum on his left, the Union of American Hebrew Congregations on his right with the words "Love Thy Neighbor as Thyself" facing the street, he was analyzing the best

## er With a Tie

**West Germany Wins**

BOCHUM, West Germany (UPI) — West Germany crushed Finland, 7-1, in a World Cup qualifying match Wednesday night.

## Russia Launches Drive To Popularize Sports

*Reuters*  
MOSCOW — The Soviet Union  
Thursday announced a campaign

to change the elitist image of Soviet sport. A decree published in Pravda said mass sport is needed

combat "smoking, drunkenness and other harmful habits and inclinations" among youth.

centers, stadiums and swimming pools to make their facilities available to the general public for up to a half-

of every day. Schools are to introduce morning gymnastics sessions and monthly "sport and health"

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**CLASSIFIED**

1. The first step is to identify the problem or question that needs to be answered. This involves understanding the context and the specific requirements of the task.

\_\_\_\_\_

By Jim Murray  
*Los Angeles Times Service*

**LOS ANGELES** — Some years ago I wrote a futuristic piece in which Olympic Games were held in an undisclosed site, and the principals were spirited to the venue in bulletproof cars and the contests were beamed out to the world via a security-tight group of TV specialists. There were no spectators, officials, autograph seekers, photographers, reporters. Only armed guards, Secret Service, and participants. No one else knew to the nearest continent where the Games were being played.

Well, there was some discussion as to whether that picture was overdrawn. I considered it probably so, but that is the broad outline of the scenario. The intrusion of politics into sports was total and irreversible. The Games people played were too effective a stage for political activism.

Come now the wire service stories of last week which read like my piece. "Spiritingbo-

Whisked Into Racine, Play Secret Match." An international rugby game scheduled for Chicago had to be smuggled to Wisconsin. "To foil protestors who threatened to disrupt Saturday's game, the time and location of the match were kept secret," the wire services said. "The president of the Racine rugby club said he was not notified till 9 p.m. Friday that his club would play again. Ticketholders were told to converge to establish a parking lot just across the Illinois-Wisconsin border where they were given further instructions from the occupants of an old green car."

Once again, life imitates art. The science fiction of one decade is the hard fact of the next. To turn sports back into what it was in the days of Frank Merriwell is to try to smelt the genie back into the bottle to escape the genie. It is not for nothing, you may recall Tommie Smith and John Carlos raising black gloves in the air at Mexico City in 1968, a simple, defiant gesture that escalated into mass murder at the next Olympics. As a

proseman for comment, the Olympics used to shoot to the pole vaulters.

When Jimmy Carter was in Russia for invasion out the Marine Olympics. He gave nervous mind the usual annual take to the day take the field in against Russian.

The first three Moscow last suits Red Army troops and gay ca tough guys who suits Red Army troops.

The South cause more misment than Carter (who, by the way the Moscow Ol

making a political statement was the Palace. They archdukes, now they shoot

Carter sought to punish the Afghans, did he call for? No, he boycotted the world's attention, and boycott was silly and ineffective. The year later, al- a U.S. track team would a meet on Russian soil

thletes.

rows of Lenin Stadium in were taken up with ers. They were warm-up, but they were the same drove tanks through the

African rugby team might ened to the Olympic move- Carlos or Yasser Arafat was an honored guest at mpics). In 1976, just be-

cause the New Zealand rugby team had played South Africa, the entire continent of Africa withdrew from the Games. This year Russia is itching to avenge the Carter insult.

And what will be the biggest expense of the 1984 Games? The same as the last four Olympics — security. There was the Mexican Army lined solidly along the route to Aztec Stadium in 1968. And the secret police in the pansy-blue and white disguises at Munich in 1972. And the Montreal police who almost outnumbered the spectators in 1976. I don't know what Red Army privates will have to buy when in the way of pay, but Moscow looked like an occupied city in 1980. It had to cost a great deal.

Track and field fans want to be concerned with non-winning times in the 400, or strategy in the pole vault, not Namibia. But separate sports from politics and diplomacy? Take ticks out of the ocean fish. The fact is, politics was already a part of sport when the Christians played the lions.

[illegible]



